

ANNUAL REPORT 2005



GREAT-WEST

LONDON LIFE
FREEDOM 55™

CANADA LIFE

GREAT-WEST LIFE & ANNUITY
GREAT-WEST HEALTHCARESM

INVESTORS

MACKENZIE

PARGESA



POWER FINANCIAL
CORPORATION

A CELEBRATION OF WOMEN

In this 2005 annual report, Power Financial Corporation celebrates women. Mothers, pioneers, workers, educators, artists, patrons of the arts: for two centuries, the many faces of women have inspired the greatest painters, and their works are as much a tribute to women as they are a reflection of the era in which they were painted.

Several Canadian cultural institutions, organizations and individuals have participated in producing this celebration of women. Power Financial Corporation would especially like to thank the following:

National Gallery of Canada, Ottawa; Musée national des beaux-arts du Québec, Québec City; The Montreal Museum of Fine Arts; Power Corporation of Canada; Musée des Hospitalières de l'Hôtel-Dieu de Montréal; A.C. Fine Art; Galerie Walter Klinkhoff, Montréal; Gestion A.S.L inc., Québec City; Religieuses Hospitalières de Saint-Joseph, Montréal; SODRAC, Montréal; and the Estate of Henri Masson; as well as Ms. Anne Cosgrove, Mr. Frank Newton, Mr. David Silcox, Mr. Nick Simpson and Mr. Paul Maréchal of Power Corporation of Canada.

We would like to extend our deepest gratitude for their support in the completion of this project.

Detailed information about the works of art presented in this report can be found on page 124.



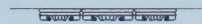
LILIAS TORRANCE NEWTON SELF-PORTRAIT CIRCA 1929
NATIONAL GALLERY OF CANADA

A member of the Beaver Hall Group, Newton made two trips to Paris to pursue her studies: the first was in 1923, when she studied drawing and composition with the Russian artist Alexandre Iacovleff, and the second was in 1929. Newton was a refined woman whose skills as a lively conversationalist enabled her to quickly establish a close rapport with her models. She was able to capture certain aspects of their personality that she then succeeded in reproducing on canvas. As a divorced mother during the Great Depression, when commissions for portraits were not plentiful, she overcame tremendous obstacles and established herself as the leading portraitist in Canada for about three decades. In 1957, she was the first woman in Canada to receive a commission for official portraits of Queen Elizabeth and Prince Philip for Rideau Hall.

From the 1920s to the 1940s, more girls than boys were enrolled at the École des beaux-arts de Montréal. In 1925 alone, 67% of the students were female. Yet few women pursued a career as a painter or sculptor after marriage. Motherhood was hard to reconcile with the life of an artist. Moreover, critics of the time often reminded women painters that they were exceptional cases, and their duties as wives and mothers took precedence over their duties as artists. It was difficult to break away from the socially accepted model.

POWER FINANCIAL CORPORATION

FINANCIAL HIGHLIGHTS



DECEMBER 31 [in millions of dollars, except per share amounts]	2005	2004
Total revenue	26,136	23,922
Operating earnings	1,694	1,538
Operating earnings per common share	2.33	2.11
Net earnings	1,661	1,543
Net earnings per common share	2.28	2.12
Dividends declared per common share	0.8700	0.7300
Total assets	110,896	104,179
Total assets and assets under administration	280,170	256,485
Shareholders' equity	9,398	8,684
Book value per common share	11.63	10.97
Common shares outstanding [in millions]	704.8	704.8
The Corporation uses operating earnings as a performance measure in analysing its financial performance. For a discussion of the Corporation's use of non-GAAP financial measures, please refer to the Review of Financial Performance in this Annual Report.		

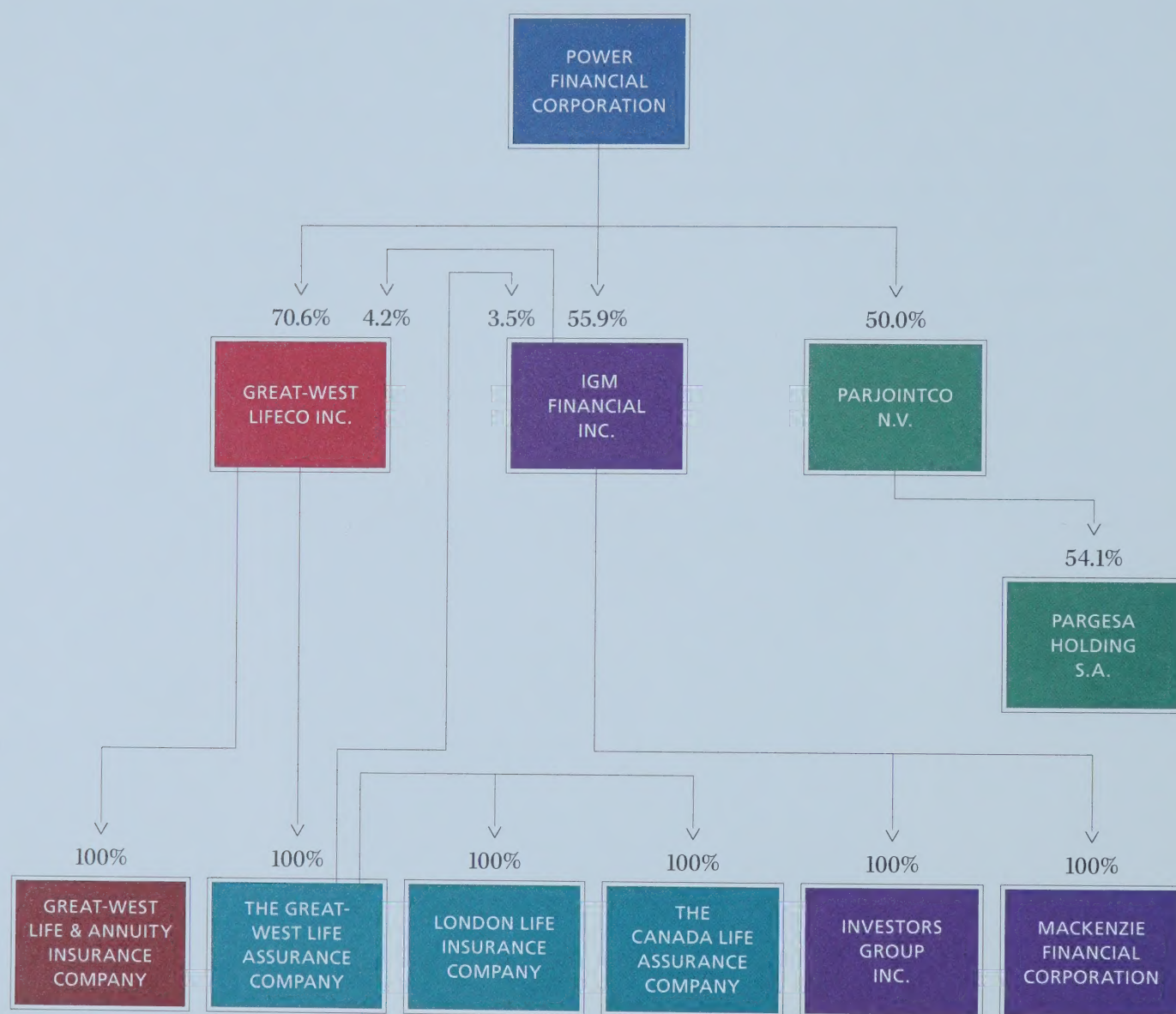
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This Annual Report is designed to provide interested shareholders and others with selected information concerning Power Financial Corporation. For further information concerning the Corporation, shareholders and other interested persons should consult the Corporation's disclosure documents such as its Annual Information Form and Management's Discussion and Analysis of Operating Results. Copies of the Corporation's continuous disclosure documents can be obtained at www.sedar.com, on the Corporation's Web site at www.powerfinancial.com or from the Office of the Secretary at the addresses shown at the end of this report.

GROUP ORGANIZATION CHART

PERCENTAGES DENOTE PARTICIPATING EQUITY INTEREST AS AT DECEMBER 31, 2005



The following abbreviations are used throughout this report: Power Financial Corporation (Power Financial or the Corporation); Bertelsmann AG (Bertelsmann); Great-West Life & Annuity Insurance Company (Great-West Life & Annuity or GWL&A); Great-West Lifeco Inc. (Great-West Lifeco or Lifeco); Groupe Bruxelles Lambert (GBL); IGM Financial Inc. (IGM Financial or IGM); Investors Group Inc. (Investors Group); London Life Insurance Company (London Life); Mackenzie Financial Corporation (Mackenzie Financial or Mackenzie); Pargesa Holding S.A. (Pargesa); The Canada Life Assurance Company (Canada Life); The Great-West Life Assurance Company (Great-West Life or Great-West).

PROFILE

POWER FINANCIAL CORPORATION HAS SIGNIFICANT INTERESTS
IN THE FOLLOWING COMPANIES:

GREAT-WEST LIFECO

holds a 100 per cent interest in The Great-West Life Assurance Company and in Great-West Life & Annuity Insurance Company. Great-West holds 100 per cent of London Insurance Group, which in turn owns 100 per cent of London Life Insurance Company; Great-West also has 100 per cent of Canada Life Financial Corporation, which holds 100 per cent of The Canada Life Assurance Company. At December 31, 2005, Lifeco and its subsidiaries had more than \$177 billion in assets under administration.

GREAT-WEST

is a leading insurer in Canada offering a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations. Together with its subsidiaries, London Life and Canada Life, Great-West serves the financial security needs of more than 12 million Canadians.

LONDON LIFE

offers Canadians financial security advice and planning through its Freedom 55 Financial division. London Life provides savings and investment, retirement income and individual life insurance products and mortgages in Canada, and operates internationally through its subsidiary London Reinsurance Group, a supplier of reinsurance in the United States and Europe.

CANADA LIFE

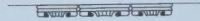
provides insurance and wealth management products and services in Canada and internationally, primarily in the United Kingdom, Isle of Man, Republic of Ireland and Germany.

GREAT-WEST LIFE & ANNUITY

operates in the United States providing self-funded employee health plans for businesses and administering retirement savings plans for employees in the public/non-profit and corporate sectors.

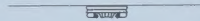
PROFILE

CONTINUED



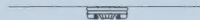
IGM FINANCIAL

is one of Canada's premier personal financial services companies, and the country's largest manager and distributor of mutual funds and other managed asset products, with over \$100 billion in total assets under management. The company serves the financial needs of Canadians through Investors Group, Mackenzie Financial and Investment Planning Counsel.



INVESTORS GROUP

provides comprehensive financial planning, advice, and services including investment, retirement, estate, and tax planning through a network of more than 3,600 consultants to nearly one million Canadians. Investors Group offers investment management, securities, insurance, banking and mortgage products and services to its clients through integrated financial planning.



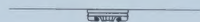
MACKENZIE FINANCIAL

is a multi-dimensional financial services company with more than 100 mutual funds and is recognized as one of Canada's premier investment managers, providing investment advisory and related services in North America.



PARGESA GROUP

holds significant positions in five large companies based in Europe. These companies operate in strategic industries, including media and entertainment, energy, water, waste services, specialty minerals, as well as cement and building materials.



The fifteen- and ten-year figures shown on pages 5, 15, 45 and 64 cover the period ending December 31, 2005. The figures showing annual returns and dividends paid by Pargesa cover the period January 1, 1991 to December 31, 2005. 1991 was the first full year of results for Pargesa following the creation of Power Financial's partnership with the Frère group.

POWER FINANCIAL CORPORATION

Power Financial's strategy is to own controlling interests in financial services companies with strong fundamentals: a low cost structure, competitive and strategically viable distribution channels, value-added products and a size that allows them to invest and develop profitably.

Power Financial has been an important participant in the consolidation of financial services in Canada. Its subsidiaries acquired London Life in 1997 for \$2.95 billion, Mackenzie in 2001 for \$4.1 billion and Canada Life in 2003 for \$7.2 billion.

Power Financial has also sought to maintain a balance between Canadian and non-Canadian earnings, first through the American and European operations of Great-West Lifeco and second through its investment in Pargesa, a European-based holding company.

Power Financial's goal is to provide superior long-term returns to shareholders.

fifteen years: 23.0% ten years: 26.2%
annual compound total return to shareholders

\$1.5 to \$23.5 billion
fifteen-year growth in market capitalization

\$3.4 billion
aggregate dividends paid to shareholders over fifteen years

DIRECTORS' REPORT TO SHAREHOLDERS



ROBERT GRATTON
Chairman of the Board,
Power Financial Corporation



R. JEFFREY ORR
President and Chief Executive Officer,
Power Financial Corporation

Power Financial Corporation's operating earnings for the year ended December 31, 2005 were \$1,694 million or \$2.33 per share, compared with \$1,538 million or \$2.11 per share in 2004, an increase of 10.1 per cent on a per share basis.

Growth in operating earnings reflects a substantial increase in the contribution from the Corporation's subsidiaries and affiliate.

Other income was a charge of \$2 million in 2005, compared with a gain of \$5 million in the preceding year, or \$0.01 per share. Results for 2005 also include Power Financial's share, in the amount of \$31 million or \$0.05 per share, of a specific charge recorded by Lifeco.

Net earnings, after taking into account other income and the share of the specific charge recorded by Lifeco, were \$1,661 million or \$2.28 per share in 2005, compared with \$1,543 million or \$2.12 per share in 2004.

DIVIDENDS

For the thirteenth consecutive year, Power Financial Corporation's common share dividend was increased, so that at the end of 2005 the quarterly dividend was 23.25 cents per share, compared with 20.25 cents at the end of 2004 and compared with 2.1875 cents per share at the end of 1992 (adjusted for share splits). The dividends declared on common shares totalled \$0.8700 per share in 2005, compared with \$0.7300 in 2004, representing an increase of 19 per cent.

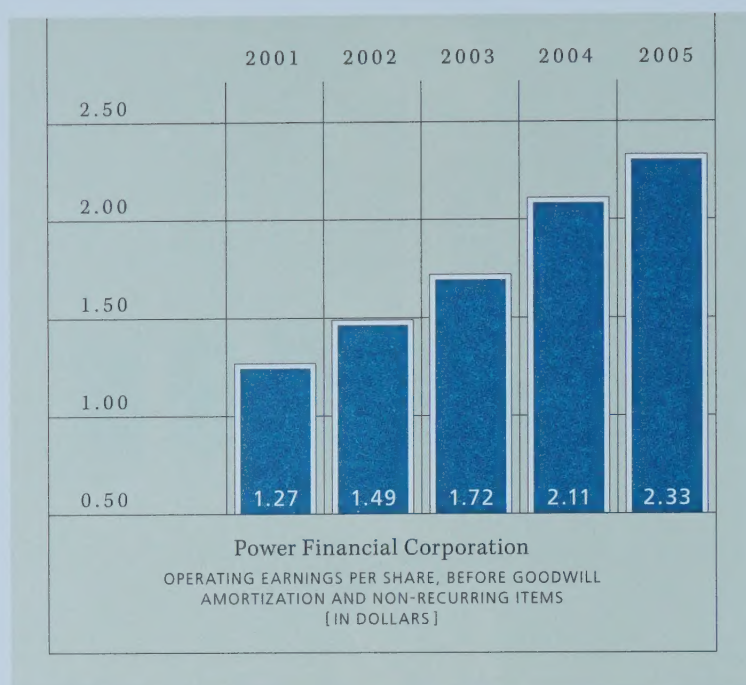
Power Financial Corporation's principal subsidiaries and affiliate also increased their dividends in 2005. Great-West Lifeco's quarterly dividend was 21 cents per common share at the end of 2005, as against 18.125 cents at the end of 2004, representing an increase of 16 per cent. The quarterly dividend paid on common



ANTOINE PLAMONDON  SISTER SAINT-ALPHONSE 1841
NATIONAL GALLERY OF CANADA

In 1826, Plamondon travelled to Paris to study with J.B. Paulin Guérin, the official painter to King Charles X. After he returned to Canada four years later, he became a prolific painter, specializing in portraits of the upper middle classes and copies of religious works. In this portrait of Sister Saint-Alphonse, née Marie-Louise-Émilie Pelletier, the artist contrasts sombre tones with bright red to express the young woman's religious vocation. The red book she holds in her hands is a sign of her devotion. The portrait was commissioned by the nun's family two years after she took her vows. Works of this type were important documents before photography transformed the nature of portraiture at the end of the 19th century.

From the 1840s to the Quiet Revolution, women in Québec were strongly attracted to religious life. The number of nuns in the province increased from 673 in 1850 to 46,993 in 1961, while the number of communities grew from 15 to 128. They set up hospitals and orphanages, providing the volunteer services to Catholics that were an accepted part of life. During the years when they were most active, religious communities played a decisive economic role in Québec society: they took responsibility for the different tasks associated with education, health and social welfare, controlling areas that today constitute 60% of the provincial budget, and for which the provincial government now invests nearly \$35 billion annually.



shares of IGM Financial increased from 30.00 cents to 34.50 cents per share during the year, an increase of 15 per cent. Also, in 2005, Pargesa increased its dividend per bearer share from SF1.84 to SF2.00, an increase of 8.7 per cent.

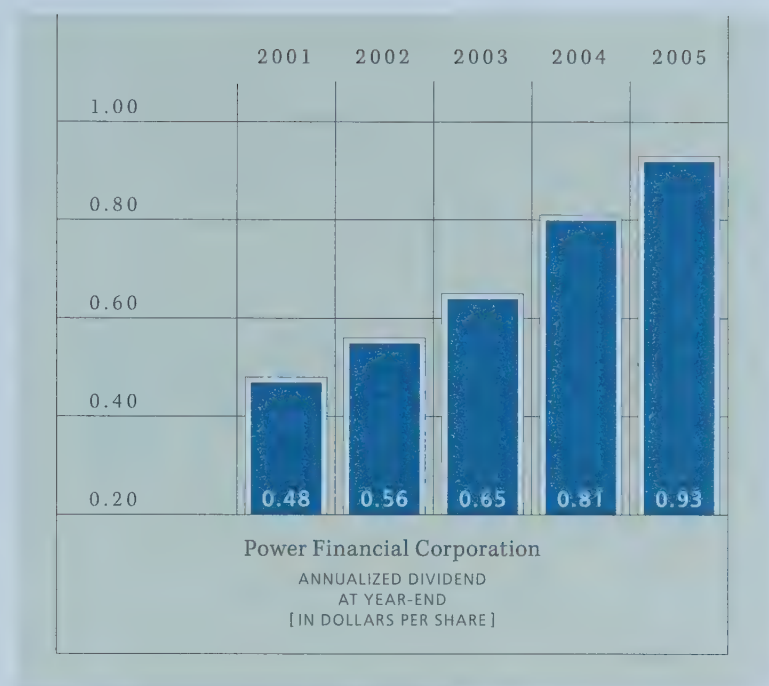
RESULTS OF SUBSIDIARIES AND AFFILIATE

GREAT-WEST LIFECO

Great-West Lifeco experienced solid operating results in all major business segments and significant growth in net income attributable to common shareholders.

Lifeco reported adjusted net income attributable to common shareholders of \$1,802 million for the twelve months ended December 31, 2005, compared with \$1,630 million in 2004. On a per share basis, this represented \$2.022 per common share for 2005, an increase of 11 per cent compared with \$1.827 per common share for 2004. Adjusted net income excludes two unusual charges composed of a reinsurance provision of \$43 million for expected losses arising from hurricane damage in 2005, considered to be the most severe hurricane damage in a century in terms of dollar loss, and restructuring charges of \$17 million (\$30 million in 2004) related to the acquisition of Canada Life Financial Corporation. Earnings were also significantly negatively impacted by the strengthening of the Canadian dollar. Net income, including all charges, attributable to common shareholders for the twelve months of 2005 was \$1,742 million, compared with \$1,600 million a year ago.

Return on common shareholders' equity, excluding unusual charges, was 20.9 per cent for the twelve months ended December 31, 2005. Assets under administration at December 31, 2005 totalled \$177.3 billion, up \$12.4 billion from December 31, 2004 levels.



Consolidated net earnings of the Canadian segment of Great-West Lifeco attributable to common shareholders increased 20 per cent to \$773 million from \$646 million at December 31, 2004. Total sales for the twelve months ended December 31, 2005 were \$6.6 billion, an increase of \$631 million over December 31, 2004 levels. Fee income for the period increased \$92 million to \$774 million. Total assets under administration at year-end were \$88.0 billion, up \$6.3 billion from the previous year-end, with increases in the general funds of \$1.9 billion and in segregated funds of \$4.4 billion.

Consolidated net earnings of the European segment of Lifeco attributable to common shareholders for the twelve months ended December 31, 2005, adjusted to exclude an unusual charge for reinsurance claim provisions of \$43 million related to expected losses arising from hurricane activity, increased 24 per cent to \$442 million from \$356 million at December 31, 2004. Net income, including all charges, attributable to common shareholders was \$399 million for the twelve months of 2005. Total sales were \$8.6 billion, an increase of \$1,200 million over 2004. Fee income for 2005 increased \$91 million. Total assets under administration for the European segment at December 31, 2005 were \$44.9 billion, up \$6.1 billion from the 2004 level with increases in the general funds of \$4.5 billion and in segregated funds of \$1.6 billion.

Consolidated net earnings of the United States segment attributable to common shareholders for the twelve months ended December 31, 2005, in U.S. dollars, increased 14 per cent to \$459 million from \$403 million for 2004. Total sales for 2005 were US\$2.1 billion. Fee income for the period increased by US\$50 million. Total assets under administration at US\$37.9 billion at the year-end were up \$1.0 billion from the December 31, 2004 level, with increases in the general funds of \$0.5 billion and in segregated funds of \$0.5 billion.

IGM FINANCIAL

IGM Financial reported net income for the year ended December 31, 2005 of \$682.4 million, compared with adjusted net income of \$615.6 million in 2004, an increase of 11 per cent. Earnings per share were \$2.56, compared with adjusted earnings per share of \$2.31 in 2004, an increase of 10.8 per cent. Adjusted net income and earnings per share for 2004 excludes a non-recurring expense. Net income in 2004 totalled \$596.4 million. Earnings per share on this basis were \$2.24.

Gross revenues for the year ended December 31, 2005 were \$2.35 billion, compared with \$2.12 billion in the previous year. Operating expenses were \$1.37 billion for the twelve months, compared with \$1.26 billion in 2004. Mutual fund assets under management at December 31, 2005 totalled \$94.1 billion, compared with \$83.3 billion at December 31, 2004, an increase of 13.0 per cent. Total assets under management totalled \$100.2 billion, compared with \$86.6 billion at December 31, 2004, an increase of 15.7 per cent.

Mutual fund sales for the year for IGM Financial's Investors Group unit were \$5.5 billion, compared with \$4.7 billion in the prior year, while mutual fund net sales for the year were \$778 million, compared with \$218 million a year ago. Net sales of long-term funds were \$529 million, compared with \$52 million in the prior year.

Investors Group's twelve-month trailing redemption rate (excluding money market funds) was 8.7 per cent at the end of 2005, down from 9.1 per cent at the same time last year. The corresponding rate at December 31, 2005 for all other members of the Investment Funds Institute of Canada (IFIC) was 16.4 per cent (after including the positive impact thereon of Mackenzie Financial, as described below).

Investors Group's mutual fund assets under management at December 31, 2005 were \$50.7 billion, an increase of 13.9 per cent, compared with \$44.5 billion at the end of 2004. The number of Investors Group consultants was 3,668 at December 31, 2005. Investors Group has experienced six consecutive quarters of growth, resulting in an increase of 14.4 per cent in its consultant network since June 2004.

Mackenzie recorded mutual fund sales of \$8.1 billion for 2005, compared with \$6.8 billion in the prior year. Mutual fund net sales were \$1.2 billion, compared with \$795 million in the prior year. Net sales of long-term funds (excluding money market and managed yield funds) were \$1.0 billion for the period, compared with \$819 million in 2004.

Mackenzie's twelve-month trailing redemption rate for long-term funds was 14.8 per cent at the end of December 2005, compared with 13.8 per cent a year ago. The corresponding rate at December 31, 2005 for all other members of IFIC was 15.7 per cent (after including the positive impact thereon of Investors Group, as described above).

Mackenzie's mutual fund assets under management at December 31, 2005 were \$41.6 billion, an increase of 11.5 per cent, compared with \$37.3 billion at December 31, 2004. Total assets under management at December 31, 2005 totalled \$49.9 billion, compared with \$42.3 billion at December 31, 2004, an increase of 17.7 per cent.



WYATT EATON  THE HARVEST FIELD 1884
THE MONTREAL MUSEUM OF FINE ARTS

A native of Philipsburg, Québec, Eaton studied in New York and Paris with the celebrated painters Jean-Léon Jérôme, James Whistler and Jean-François Millet. He painted with Millet, in particular, from 1873 to 1875 in the region of Barbizon, a village that gave its name to the artistic movement known as the Barbizon School. Eaton produced this harvest scene during a prolonged visit to the region from 1883 to 1886. Associating Mother Earth with the mother and child presents an idyllic vision of country life. Placing the viewpoint very close to the ground and using similar tones in the colours used for the figures and the field intensifies this osmosis. It also magnifies the silhouette of the mother and child, whose monumental appearance is in itself an homage to the symbolic values of fertility and nourishment.

Women have always played a vital role in rural life. Ruled by the seasons, their work was extremely demanding. Taking care of livestock, gardening, canning fruits and vegetables, spinning, weaving, sewing: women had to produce a substantial portion of the goods their families needed, in addition to bringing up their children. In Canada in 1887, women had an average of 4.3 children. By 1913, this figure had fallen to 3.1 and, by 2001, to 1.5.

PARGESA

Power Financial holds a 54.1 per cent equity interest in Pargesa, together with the Frère group of Belgium. In 2005, Power Financial's share of the net operating earnings of its European affiliate was \$121 million, as compared with \$126 million in 2004. The decrease in the contribution of Pargesa is primarily due to the strengthening of the Canadian dollar against the Swiss franc.

On July 1, 2005, Pargesa Holding S.A. subdivided the nominal value of its registered and bearer shares by a ratio of 50 to 1, to improve the liquidity of its shares and make them more accessible to a wider circle of shareholders.

In January 2006, GBL announced that, in accordance with its shareholder agreement with the Mohn family (the controlling shareholder of Bertelsmann AG), GBL's Board of Directors had decided that it would pursue the possible exercise of its right to require the public listing of shares of Bertelsmann, if the market conditions are favourable, as of the end of May 2006.

In January 2006, GBL announced that it had made an investment in Lafarge, a leading international company in cement and building materials. GBL further increased its interest in the company and, as of March 28, 2006, held an 8.1 per cent interest in Lafarge.

On March 28, 2006, GBL announced that it would issue common shares for gross proceeds of €709 million. Pargesa will subscribe its share of this new issue.

The group companies' financial results and operations for the year ended December 31, 2005 are discussed at greater length in the Corporation's Management's Discussion and Analysis of Operating Results dated March 29, 2006 which is available at www.sedar.com or from the Secretary of the Corporation, and in the pages of this report dedicated to each of the major operating companies.

SHARE ISSUE

On October 7, 2005, the Corporation issued 10,000,000 Non-Cumulative First Preferred Shares, Series K, for gross proceeds of \$250 million. The shares were priced at \$25 per share with a 4.95% annual dividend. Proceeds from the issue were used to supplement the Corporation's financial resources, to repay its \$150 million principal amount of 7.65% debentures, which matured on January 5, 2006, and for general corporate purposes.

EXECUTIVE APPOINTMENTS

At the Annual Meeting of Shareholders on May 9, 2005, it was announced that the Board of Directors had approved the appointment of Mr. Robert Gratton as Chairman of the Board of Directors, and Mr. R. Jeffrey Orr as President and Chief Executive Officer. Mr. Paul Desmarais, Jr., O.C., who had been Chairman of the Board since 1990, became Chairman of the Executive Committee of the Board. Mr. Orr had been President and Chief Executive Officer of IGM Financial since May 2001.

In announcing these appointments, Mr. Paul Desmarais, Jr. noted that with Power Financial's group companies showing very substantial growth, with three major acquisitions over the preceding seven years and with possible opportunities internationally, the Corporation had decided to enlarge its management team, while keeping in mind the importance of management continuity.



WILLIAM BRYMNER  THE WEAVER 1885
MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

The Brymner family left its native Scotland in 1857 and arrived in Canada when William was only two years old. Brymner left for Paris in 1878 to study architecture, but decided to study painting at the Académie Julian in that city instead. Back in Québec in 1885, he spent the summer at Baie-Saint-Paul, lodging with a Madame Fréchette, where he painted this weaver. Unlike his compatriots who painted landscapes, Brymner liked to paint people busy with the everyday occupations of rural life. This betrays the influence of Millet and the movement of social realism in painting that had been launched by Gustave Courbet in mid-century France, which enjoyed critical acclaim while the young painter was living in Europe.

At the turn of the 20th century, the family workshop gave way to the factory. Industrialization permanently transformed the landscape. In textile mills the traditional loom was mechanized, and soon became nothing more than a machine operated by workers. In 1891, approximately one fifth of factory workers were women. Yet there were many women, mothers and daughters, who worked at home for pay. This type of work allowed them to make a financial contribution to the upkeep of the family while still taking care of the household and looking after the children.

Mr. Desmarais also noted that Mr. Gratton would continue to be fully involved, as in the past, in the management of the Corporation and that Mr. Gratton and Mr. Orr will work as a team, and will share the duties and responsibilities, as circumstances dictate, to maximize the impact of Power Financial's contribution to its group companies. Mr. André Desmarais, Deputy Chairman of the Board, and Mr. Paul Desmarais, Jr., Chairman of the Executive Committee, continue to collaborate with Messrs. Gratton and Orr, working as a team, as they had previously for many years with Mr. Gratton.

Also at the Annual Meeting of Shareholders, Mr. Orr was elected to the Board of Directors of the Corporation.

THE POWER FINANCIAL GROUP

The companies in the Power Financial group have provided their shareholders with superior financial results.

In Canada, Great-West, London Life, Canada Life, Investors Group and Mackenzie comprise one of the leading networks for the delivery of financial products and services. Great-West is a leading life and health insurer and, together with its subsidiaries, London Life and Canada Life, serves the financial security needs of more than 12 million Canadians. Investors Group and Mackenzie together comprise Canada's largest manager and distributor of mutual funds, with over two million clients. In the United States, Great-West Life & Annuity is focused on providing a broad range of health coverage, insurance, and retirement saving products and services to selected markets. And in Europe, the Pargesa group includes interests in five prominent operating companies with well-established franchises.

The Directors of Power Financial wish to express once again their appreciation to the officers, employees and representatives of the companies in the Power Financial group for their contribution to the group's success during the past year.

On behalf of the Board,



Robert Gratton
Chairman of the Board



R. Jeffrey Orr
President and Chief Executive Officer

March 29, 2006

GREAT-WEST LIFE CO



Great-West Lifeco has operations in Canada, the United States and Europe, through Great-West, London Life, Canada Life and Great-West Life & Annuity.

In the United States, Great-West Life & Annuity is a leader in providing self-funded employee health plans for businesses and in meeting the retirement income needs of employees.

In Europe, Canada Life has substantial life insurance operations and is a market leader in the United Kingdom group life and health business.

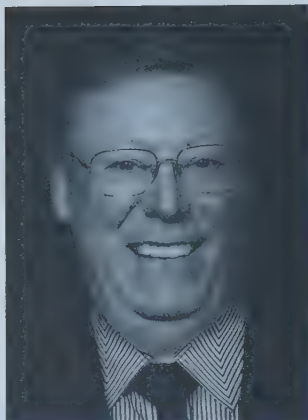
25.7% annual compound total return to shareholders

\$1.0 to \$27.3 billion fifteen-year growth in market capitalization

\$3.5 billion aggregate dividends paid to shareholders over fifteen years



GREAT-WEST LIFECO



RAYMOND L. McFEETORS
President and
Chief Executive Officer

Great-West Lifeco delivered strong results in 2005, through a combination of managed growth and careful stewardship of its core businesses.

Earnings attributable to common shareholders, before adjustments, continued a pattern of steady growth, increasing 11 per cent over 2004 to \$1.8 billion. On a per common share basis, before adjustments, earnings increased 11 per cent to \$2.022 per share. Lifeco's return on equity was 20.9 per cent.

REGIONAL STRENGTH

All operating segments delivered solid earnings, although in some operations earnings growth was affected by the strength of the Canadian dollar, a challenge the company expects to continue to face in 2006.

In Canada, earnings were exceptionally strong, driven by the realization of expense gains from the Canada Life integration, favourable operating results from the Canadian group insurance business, and significant growth in sales of retail investment funds, in particular from the Freedom 55 Financial distribution channel. In Europe, earnings growth reflected gains in core product markets and, in part, the acquisition of a block of payout annuity business in the United Kingdom during the year. In the United States, the performance of the Healthcare and Financial Services businesses helped drive good results and, in U.S. dollars, earnings increased in both businesses.

Total assets under administration grew eight per cent to more than \$177 billion. Both segregated funds and general funds experienced similar levels of growth, with growth in general funds primarily the result of the acquisition of a block of payout annuity business in the United Kingdom during the year.

Premiums and deposits increased to \$34.9 billion in 2005, reflecting high persistency and good sales growth, despite the strengthening of the Canadian dollar against the U.S. dollar, British pound and euro.

Fee income grew seven per cent to \$2.4 billion as a result of growth in the segregated funds asset base, which reflected strong net cash flow and equity market conditions.

Investment performance contributed favourably in all operating segments, reflecting the high quality of invested asset portfolios and the contribution from investment trading initiatives.

As always, management continued to closely monitor expenses. In 2005, the company reduced operating expenses while growing its top line revenue. Although management believes this is an extraordinary accomplishment, the company will continue to look for ways to improve efficiencies and reduce costs.

BUILDING ON CORE BUSINESSES

Selected acquisitions, combined with carefully managed organic growth, continue to position the operating companies as leaders in their core markets.

Opportunities for growth within the Canadian insurance market are limited, while the United States and Europe offer opportunities for acquisitions and partnerships that build on core businesses.

In 2005, the company acquired the payout annuity business of Phoenix and London Assurance Limited in the United Kingdom. This almost doubled the payout annuities portfolio, enhancing the company's position in this core European market. The acquisition contributed positively to net income in the year.

In the United States, the acquisition of Mediversal, Inc. continued to expand GWL&A's capacity in the specialized third-party administration market. Mediversal is a health care service company that administers claims for employers with self-funded group health and workers' compensation plans. GWL&A's successful expansion in the third-party administration market, through partnerships and acquisitions, has resulted in a strengthened competitive position. As well, GWL&A's flexible consumer-driven products and programs that benefit plan members and deliver savings to employers continue to be well received. In the Financial Services business, while building on the successful integration of the businesses acquired in 2003 and 2004, the company continues to look for opportunities to respond to the changing landscape.

With financial services sector consolidation well advanced in Canada, the company's strategy is to focus on its multi-channel distribution model and on organic growth. In 2005, Great-West acquired a block of mutual fund business in Québec that significantly increased its distribution capacity in that market. The strength and diversity of the multi-channel distribution network of Great-West and its subsidiaries continues to provide a significant competitive advantage. The companies' strong relationships with business partners contribute to ongoing success in the Canadian marketplace.

While traditional insurance lines form a bedrock of success for the businesses, the companies are actively seeking new opportunities to apply emerging technologies to enhance the products and services they offer. Particularly in Canada and the United States, Lifeco's companies are increasingly developing the tools and services to help clients, with their advisers, make informed decisions, whether those decisions are about personal financial security, managing health care costs or maintaining a healthy workplace.

STRENGTH AND VALUE

The integration of Canada Life's operations was completed in 2005. The synergies achieved in these operations exceeded targets and continue to have a positive impact on the performance of Lifeco's operating subsidiaries.

One acknowledgement of the success of the integration of the Canada Life acquisition is the consistently strong credit ratings of Lifeco and its subsidiaries. In July 2003, with the acquisition of Canada Life, the ratings of Lifeco's companies had been downgraded and were assigned a negative outlook by Standard & Poor's Ratings Services and Moody's Investors Service. Following the release of Lifeco's 2005 results, Dominion Bond Rating Service upgraded Lifeco's senior debt rating and preferred shares rating. The other ratings for Lifeco and its subsidiaries were affirmed in 2005 and the outlook was changed to stable from negative by both Moody's and Standard & Poor's.

In recent years, Lifeco's companies have experienced rapid growth and participated in the ongoing consolidation and resulting intensification of competition in many markets. Throughout this, Lifeco has recorded one of the leading returns on equity in its industry, in excess of 20 per cent.

Lifeco has also continued to generate shareholder value, through appreciation of its common shares and consistent growth in dividends. In 2005, Lifeco paid dividends of 81 cents per common share, an increase of 18 per cent over 2004 and an average compound growth rate of 21 per cent over the past ten years.

SENIOR MANAGEMENT DEVELOPMENTS

In December 2005, several senior management changes at Lifeco and its operating companies were announced.

Following a distinguished 41-year career, William T. McCallum retired as President and Chief Executive Officer of Great-West Life & Annuity, and was appointed Vice-Chairman of the Board.

Raymond L. McFeetors assumed the role of President and Chief Executive Officer, Great-West Life & Annuity, in addition to his current position as President and Chief Executive Officer at Lifeco, and at Great-West, London Life and Canada Life.

Denis J. Devos and William L. Acton assumed the newly created positions of President and Chief Operating Officer for Great-West, London Life and Canada Life in Canada and Europe, respectively. These appointments are a natural progression of their roles and recognize the extensive experience that these individuals have within the organization.

These changes are a reflection of growth in the organization's diversity in recent years. They establish a uniform focus of senior management structure in the regions where Lifeco does business. In addition, they facilitate a renewed focus on the United States operations within the context of the broader organization, and position the companies to continue to build on achievements in all regions.



ROBERT HARRIS  A MEETING OF THE SCHOOL TRUSTEES 1885
NATIONAL GALLERY OF CANADA

Harris discovered the work of the Dutch masters while he was studying in the Netherlands from 1876 to 1878. This discovery had a decisive influence on his work in terms of composition and the treatment of light, as can be seen from this picture. It depicts a scene that took place in a country schoolhouse in Long Creek, Prince Edward Island, the province where the painter chose to settle when he arrived from Wales in 1856. The confrontation is between a young teacher, Kate Henderson, and four skeptical school trustees who show no sympathy for her ideas on education. Thus, the work takes on the narrative character of the 17th-century Dutch painting that Harris so admired.

For many educated young women, the prospect of becoming a teacher was an opportunity to work in a field that guaranteed a certain prestige. By the second half of the 19th century, women outnumbered men in the field, since hiring them saved local school boards a considerable amount of money. All across Canada male teachers left the profession because of low salaries, and women were hired to replace them. Before 1870, for less than \$100 a year, a country schoolmistress taught classes of up to 50 students.

GREAT-WEST | LONDON LIFE | CANADA LIFE

CANADA



Great-West, together with London Life and Canada Life, is one of Canada's leading life and health insurers. The companies offer a broad portfolio of financial and benefit plan solutions to individuals, families, businesses and organizations, representing in total 12 million Canadians.

Products and services are distributed through Great-West's network of financial security advisers, brokers and intercorporate representatives, as well as Investors Group consultants and 2,300 independent brokers and benefit consultants. London Life products are offered exclusively by London Life's 3,000-member Freedom 55 Financial channel.

Canada Life's own branded products are distributed through 11,500 independent advisers, 63 managing general agents and 17 national accounts.

Over \$88 billion
in assets under administration

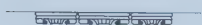
Serves the financial security needs of
12 million Canadians

Over 3.3 million
individual policyholders



GREAT-WEST | LONDON LIFE | CANADA LIFE

CANADA



Great-West Life is one of Canada's leading life and health insurers. Great-West and its subsidiaries, London Life and Canada Life, market a full range of financial security products under the Great-West, London Life and Canada Life brands. The companies market their products through an extensive network of financial security advisers and brokers, including the highly recognized Freedom 55 Financial division of London Life.

Carefully managed organic growth and a clear focus on strengths in core markets helped Great-West and its subsidiaries record another year of solid performance in 2005. For the second consecutive year, total net income in Canada exhibited strong growth. Following exceptional growth of 34 per cent in 2004, total net income grew 20 per cent to \$773 million in 2005. For participating policyholders of Great-West and its subsidiaries, net income before policyholder dividends was \$858 million. During the year, policyholder dividends were \$764 million, with net income in the participating accounts after dividends of \$94 million.

Total premiums and deposits were \$13.4 billion in 2005, reflecting high persistency and good sales growth. Fee income grew 13 per cent, while total assets under administration increased eight per cent. Strong growth in retail investment funds deposits, including segregated funds and mutual funds, resulted in a 13 per cent increase in segregated funds assets and a 52 per cent increase in mutual funds assets. General funds grew four per cent.

Great-West achieved solid results across all major lines of business. In group insurance, where the company provides employee benefit plan solutions for more than 34,000 employers in Canada, sales results grew by six per cent in 2005, while net income attributable to common shareholders increased 16 per cent to \$294 million.

In the individual life insurance business, Great-West's strategy has been to maintain strong independent brands for Great-West, London Life and Canada Life. Each brand offers clients and distribution channels unique products and services, supported by combined administrative systems and processes. In 2005, sales of individual life insurance increased 14 per cent to \$172 million. The key driver of this increase was 55 per cent growth in universal life sales, with all sales channels enjoying strong growth. Living benefits products, which include disability income insurance and critical illness insurance, are sold under two distinct brands, Great-West and Canada Life. In 2005, sales for these products tallied \$45 million.

In individual retirement and investment products, the company enjoyed an 18 per cent increase in segregated funds sales over 2004. This increase reflects the acceptance of the company's product offering in the marketplace, a continuing strong Canadian investment market and expanded marketing efforts and sales support at Canada Life. Segregated funds assets increased by 15 per cent or \$2.4 billion over December 31, 2004, due to market growth and net cash flows.

In the group retirement business, the substantial conversion of Canada Life insurance-based retirement plans to London Life's administrative system was completed in 2005. Excluding the converted business, premiums and deposits were up nine per cent over 2004, which highlights the quality of the company's in-force block of business.

Mutual fund dealer Quadrus Investment Service Ltd., a subsidiary of London Life, grew much faster than the market and key competitors. Assets under administration grew 52 per cent to \$3.3 billion in 2005, while gross sales rose 63 per cent to \$732 million. Asset transfers increased 112 per cent to \$646 million. As well, the number of registered investment representatives increased 18 per cent to 3,711, further confirming Quadrus's place as one of the largest mutual fund dealers in Canada.

Great-West's continued strong performance in 2005 is an indication of the quality of its underlying businesses, distribution channels and the successful integration of Canada Life's operations, which was completed in 2005. The synergies achieved through the integration have exceeded targets and continue to have a positive impact on the company's performance.

As well, the strength of Great-West Life and its subsidiaries is reflected in the Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio, a capital adequacy measurement established by the Office of the Superintendent of Financial Institutions Canada. At the end of 2005, Great-West's MCCSR ratio, including its European and reinsurance operations, was 208 per cent, compared with 199 per cent in 2004, well above regulatory requirements. London Life's MCCSR ratio at the end of 2005 was 237 per cent compared to 235 per cent in 2004, and Canada Life's MCCSR ratio at the end of 2005 was 231 per cent compared to 218 per cent in 2004.

MARKET LEADERSHIP

In 2005, the Great-West group of companies maintained or enhanced its leadership positions in a number of key markets in Canada. The value of this marketplace leadership lies in what it enables the companies to offer clients — quality service, knowledgeable advice and innovative products, at competitive costs.

While traditional insurance forms the bedrock for our continued success, increasingly, clients are looking to the companies and their distribution channels for the tools and advice to help make informed decisions, whether those decisions are about personal financial security or maintaining a healthy workplace.

Great-West has long been a leader in the Canadian employee benefits market. In 2005, Great-West continued to invest in technologies that create opportunities to enhance products and services for plan sponsors and plan members.

Since its introduction in 2004, GroupNet Online Services for Plan Members has become a source of benefits information and service for more than 300,000 Canadians covered through Great-West group insurance plans. In 2005, GroupNet Flex Administration and Enrollment was added to the GroupNet suite of online tools and services. This new resource helps plan sponsors and their advisers set up flexible benefits programs, making these plans more accessible to more businesses.



ROBERT HARRIS  INDIAN WOMAN AND CHILD CIRCA 1886
NATIONAL GALLERY OF CANADA

After making several trips to Europe and the United States to pursue his studies, Harris opened a studio in Montréal in 1883, the year in which he received the commission for his famous painting of the Fathers of Confederation. Harris was renowned for his portraits of upper-class men and women during his lifetime, but he rarely painted Native persons. This likeness of a young Indian woman with her child was painted at the height of his career in 1886, after a photograph published in the London *Graphic* on August 16, 1884. The accompanying caption noted that the woman came from Winnipeg, which means that she would have been a member of the Cree or Assiniboine nation.

In many First Nations societies, women held a certain power: they negotiated marriages and took an active role in electing the chief. These societies were matrilineal, based on a system of tracing descent through the maternal line, which was solely responsible for determining the name of a child and to which clan it belonged. In such societies, it was the men who left their families to live among their wives' families. Marriage took place only if the young girl accepted her future husband. Women, as providers of nourishment, were at the centre of family life.

Great-West also developed an innovative approach to help employers address rising benefit plan costs. Health Factors — work-life solutions is a co-ordinated approach to organizational health that will help empower organizations developing a workplace climate that supports health and wellness.

With the addition of Canada Life in 2003, Great-West also became a leader in the creditor insurance business. Under the Canada Life brand, the company offers convenient insurance options for individuals obtaining mortgages or other loans from financial institutions. The company's strong business relationships, combined with low-cost operations, extensive distribution network and reputation for service, provide a significant competitive advantage in this market. In 2005, the creditor business of Great-West was successfully integrated into Canada Life's operations, while achieving double-digit growth.

The company is also a leader in the capital accumulation business, where it helps employers and employees with their retirement plans. Including the conversion of Canada Life business, which was completed in 2005, Group Retirement Services has more than 17,000 group retirement and savings plans, 1.2 million plan members and over \$32 billion in assets under administration.

For individuals and families, Great-West is a leading provider of investment funds, and disability and critical illness insurance. In 2005, the company's segregated funds offering for all distribution channels was expanded and a Web-based annuity quote system was introduced. New marketing materials and sales strategies were also introduced, and illustration software and sales concepts provided. As well, Canada Life introduced four new disability insurance programs for professionals, business owners, executives and employees in both the blue-collar and white-collar markets, helping enhance the company's competitiveness in this sector.

In 2005, Great-West, together with London Life and Canada Life, became Canada's number one provider of individual life insurance, with sales growth well ahead of the industry. The reach of universal life insurance was extended to all distribution channels. With competitive rates and features, the company's universal life offerings were a main reason behind the growth in life insurance sales during 2005.

An agreement with National Bank of Canada continues to enable Great-West and its subsidiaries to offer advisers and clients a broad range of banking products and services.

MULTI-CHANNEL DISTRIBUTION STRATEGY

The company's multi-channel distribution strategy provides significant competitive advantage in the Canadian marketplace.

Products are distributed through the exclusive Freedom 55 Financial distribution channel, Great-West financial security advisers and through Canada Life distribution partners, including managing general agents, independent brokers and intercorporate agreements with other financial institutions. Building on its distribution capacity is an important source of growth for Great-West in Canada. In 2005, the company acquired a block of mutual fund business in Québec that significantly increased the company's distribution capacity in that market. The advantage of this strategy lies in the strength and diversity of the distribution channels, and the value that these advisers offer their clients in planning for their financial security and businesses.



OZIAS LEDUC  MY MOTHER IN MOURNING CIRCA 1890
NATIONAL GALLERY OF CANADA

After spending some time in Paris, where he discovered impressionism and met the painter Maurice Denis, Leduc returned to Saint-Hilaire, Québec. At the same time he was painting in churches, an activity that left him little time to spare, he devoted himself to painting at his easel. The scope of his talent can be judged from his still lifes and portraits. The latter are often not very large and incorporate symbolist themes, like this painting of his mother mourning her daughter Eugénie, who died at the age of three. The portrait cleverly depicts the loss of a loved one through the simplicity of the black clothing and bistre-coloured background, as well as in the quick brushstrokes that linger on essential elements: the facial expression of serenity and resignation worthy of the mother who, even as she looks our way, seems lost in meditation.

At the beginning of the 20th century, infant mortality was so frequent that, in urban areas, death was part of everyday life for Canadian families. More than in any other city, Montréal had an extraordinary infant mortality rate: more than one in four children died before reaching the age of one. In the mid-1920s, Ontario had a rate of 76 deaths per 1,000 births, while Québec had 127 deaths per 1,000 births. Today the number of deaths per 1,000 births is about five. In the past, in addition to wearing the appropriate black wardrobe, family members were obliged to observe a period of mourning: first came "deep mourning," for a year and a half, then "half-mourning," lasting a few more months.

Great-West, London Life and Canada Life also work to provide the best possible sales and marketing support for all distribution channels.

At Canada Life, one initiative in 2005 was the launch of innovative tools that allow advisers to quickly tailor presentations that link insurance solutions to specific client goals. Administration was streamlined by simplifying application processes and e-business programs, allowing advisers to spend more time focusing on clients' needs. In 2006, the company's secure adviser Web site, RepNet, will move to a new, portal-based technology, enabling the company to enhance its system to help advisers provide better service to their clients.

As a result of enhancements in recruiting and selection and a focus on new adviser training, the number of financial security advisers with London Life's Freedom 55 Financial division grew to almost 3,000. In addition, Freedom 55 Financial introduced professional business forums to assist advisers in developing their expertise and growing their business. The organization will continue to invest in adviser development in 2006. In the coming year, advisers will continue to review clients' financial security plans and reinforce the benefits of taking a long-term approach to financial security planning.

Within Freedom 55 Financial, the Wealth & Estate Planning Group is a specialized segment of advisers focused on meeting the complex needs of affluent Canadians. These advisers operate financial practices (known as member companies) with their own staff and premises.

The average amount of life insurance premium per client continues to increase, and large cases (greater than \$10,000 in premium) now account for 75 per cent of all life insurance sales by the Wealth & Estate Planning Group. Large-case investment fund sales (greater than \$100,000 in assets) account for 26.6 per cent of this business. Investment fund assets grew 16 per cent in 2005 (from 2004). Goals for 2006 include higher average annual life premiums, more large investment fund cases and growth in assets per client, as well as increased adviser revenues.

BUILDING ON STRENGTH

In 2006, Great-West and its subsidiaries will continue to build on the strength of its multi-channel distribution strategy in Canada, and develop opportunities where technology solutions can support quality customer service at competitive costs.

Great-West is well positioned within the Canadian group insurance marketplace. New technologies have created opportunities for the company to lower costs while improving its product and service offerings to plan sponsors and plan members.

Management believes that its low cost position combined with its extensive distribution capability will enable the company to capitalize on these new opportunities. Through the effective application of these technologies, the company expects to enhance its competitive advantage as a low-cost producer.



JOSEPH-CHARLES FRANCHÈRE  PORTRAIT OF A YOUNG WOMAN 1903
MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

Franchère, a Montréal painter born in 1866, studied painting with Father Joseph Chabert before continuing his training in Paris. He visited the City of Light three times between 1888 and 1912, most notably studying with Jean-Léon Jérôme. Upon returning to Montréal, Franchère devoted himself to painting portraits, although he also produced genre scenes and works for church interiors. The identity of most of his models is still unknown: Franchère gave only their initials when the paintings were exhibited. His portraits attest to a strong desire to break away from the then-dominant academic tradition. Featuring women clothed in diaphanous robes like the vestal virgins of antiquity, posing with a flower in their hand or on their bodice, Franchère's head-and-shoulders portraits create a light and ethereal mood that is quite distinct from the stiff and often officious nature of portraiture at the turn of the 20th century.

For painters in Canada, just as for their counterparts elsewhere, youthful femininity was the very definition of beauty and elegance.

As well, these new technologies allow the company to enhance services to its plan sponsors, plan members and advisers by providing them with the ability to transact business and obtain benefit plan and health-related information through Internet-based offerings such as Great-West's GroupNet suite of online tools.

As the costs of employee disability plans continue to gain the attention of plan sponsors, the company has developed an array of expanded disability services that will support clients in the management of their plans. Early intervention programs and online disability management information services are available to meet these emerging client needs.

In the individual insurance and investment business, while most of the company's strategies are designed to meet the needs of a specific distribution channel, there are competitive and market needs that are common to all.

In 2005, the company introduced an impressive array of new and enhanced products. In the coming year, the company will continue to aggressively develop, price and market its comprehensive range of products in the face of tough competition.

The number of advisers the company serves continues to grow through successful recruiting, wholesaling and professional development programs. In particular, advisers highly value the organization's national network of product and marketing specialists. The company's mutual fund dealer, Quadrus, is also increasingly attractive to experienced investment representatives who wish to transfer business from their existing dealer.

The company will continue to enhance products, services and tools in order to be the best place for advisers to do business. In 2006, clients will also benefit from the expanded product range and financial planning information, as well as online access to certain account information and more robust reporting.

Great-West, London Life and Canada Life enjoy a strong market position in the consolidated financial services sector. Together, the companies look forward to continued growth in core markets in Canada. The strong, well-known brands, supported by quality products and services and professional, knowledgeable people, will continue to contribute to their position of strength in the Canadian marketplace.



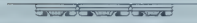
HORATIO WALKER  SHEEP SHEARING — ÎLE D'ORLÉANS 1903
PRIVATE COLLECTION

A self-taught painter of scenes of everyday life on Île d'Orléans, near Québec City, Walker celebrated the rural world by depicting the many activities that punctuated its days and seasons. Walker's countryside is vivid, idyllic and filled with proud, energetic people engaged in occupations considered exotic in the eyes of city dwellers. The works of this artist, who was represented by the Montross Gallery of New York, were eagerly sought by collectors. This particular painting, exhibited in a major retrospective of the artist's work held by that gallery in 1903, was reviewed by a critic of *The New York Times*, who detected in it the influence of Millet. Even though Walker had been painting exclusively on Île d'Orléans since 1883, his subjects remained universal.

Women in the country were usually responsible for the farmyard, taking care of the animals and looking after the garden. Before electricity transformed farm life in the mid 20th century (in 1945, only 19% of farms had electricity), working tools were very rudimentary: sheep shearing, for example, was accomplished using a simple blade. To make the most of every worker's skills and ensure that they complemented each other, labour at the time was divided according to gender. Men's and women's tasks were both essential, and both contributed to the welfare of the family.

CANADA LIFE

EUROPE



In Europe, Canada Life provides a focused range of insurance and wealth management products and services, primarily in the United Kingdom, Isle of Man, the Republic of Ireland and Germany.

In the United Kingdom, the company is a leading provider in the group life and group income protection markets. It is among the top four in the growing payout annuities market.

Through its Isle of Man affiliate, Canada Life is a top provider of savings and retirement products, which are sold through independent financial advisers, primarily in the United Kingdom. In the Republic of Ireland, it offers individual insurance, savings and pension products that are distributed through a network of independent brokers and a direct sales force. Through its German operations, the company has established itself as a provider of innovative, fund-based pensions and living benefits products, distributed through independent brokers.

In the reinsurance business, life, annuity and property and casualty reinsurance is offered through operations in the United States, Barbados and Ireland.

Over \$45 billion
in assets under administration

3.9 million
individuals covered

\$106 billion
in annual premiums and deposits



CANADA LIFE

EUROPE



Lifeco's European operation is broadly organized along geographically defined market segments, and offers protection and wealth management products and reinsurance. The operation consists of two distinct business units: Insurance and Annuities, including operating divisions in the United Kingdom, Isle of Man, Republic of Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland.

The Insurance and Annuities business is conducted through Canada Life and its subsidiaries. The Reinsurance business is conducted through Canada Life, London Reinsurance Group Inc. (a subsidiary of London Life), and their subsidiaries.

Shareholder net income for the Europe/Reinsurance segment increased 12 per cent or \$43 million to \$399 million, reflecting, among other factors, strong business growth in insurance and annuities, and improved operational efficiencies.

Premiums and deposits increased to over \$10.6 billion. In the insurance and annuities business, premiums and deposits grew six per cent, or \$340 million, to \$5.9 billion in 2005, due to higher segregated funds premiums on savings products in the United Kingdom/Isle of Man, payout annuities in the United Kingdom and pension products in Ireland and Germany.

Sales in the insurance and annuities business increased by \$205 million or five per cent over 2004, reflecting strong sales growth in savings products in the United Kingdom/Isle of Man, pension products in Ireland and payout annuities in the United Kingdom. In Germany, market demand weakened following the surge in business in 2004 caused by changes to the taxation of pension products.

PRODUCT-FOCUSED STRATEGY

The company's product-focused strategy in its European operations continues to generate solid operating results, and management sees favourable prospects for ongoing growth in the niche markets in Germany and the United Kingdom, where the company is well positioned. As well, leveraging Great-West's extensive experience in the North American group insurance and wealth management markets helped the European operations achieve strong performances in 2005.

One opportunity for growth in 2005 was the acquisition of the payout annuity business of Phoenix and London Assurance Limited in the United Kingdom, which enhanced the company's position in this core market. Effective July 1, 2005, the company reinsured the business and assumed management of its investments. During the year, the contribution from this block to the company's net income was positive, in line with management's expectations. The addition of this block of business also increased general fund assets and policy liabilities by approximately \$4.4 billion.

The company continues to rationalize its presence in certain international locations. In 2004, the group business in Bermuda was sold. The balance of the Bermuda business and Brazil operations were sold effective July 31, 2005 and October 18, 2005, respectively.

STRONG MARKET POSITIONS

The core products offered in the United Kingdom are payout annuities, savings and group insurance. These products are distributed through independent financial advisers and employee benefit consultants. The Isle of Man operation provides savings and individual protection products that are sold through independent financial advisers in the United Kingdom and other selected territories.

Canada Life was awarded a four-star rating in the 2005 Financial Adviser Service Awards. This places Canada Life among the top 15 service providers in the investment arena, recognizing the company's continuing commitment to service excellence.

In Ireland, the life insurance market is very mature with one of the highest penetration rates in the world. Canada Life operates in all segments of the market and is the seventh largest life insurance operation in Ireland, as measured by new business market share. The core products offered in Ireland are individual insurance and savings and pension products. These products are distributed through independent brokers and a direct sales force.

The German operation focuses on pension products that are distributed through independent brokers. Canada Life has continued to increase its market share in Germany, and has established itself in the German market as a provider of innovative fund-based products for pensions, as well as disability and critical illness products. During 2005, the company improved its product suite with particular focus on non-guaranteed, unit-linked pensions. The company is among the top five in the broker unit-linked market in spite of further new entrants in the sector.

The company will continue to focus on opportunities for growth in its strong niche positions in core businesses and on expanding distribution capabilities.

REINSURANCE

Prudent business practices and systems, coupled with a strong client service ethic, have helped build the company's reinsurance operation to an important market position. Principal operations are in the United States with growing opportunities in Europe through its offshore entities.

In 2005, the company continued to leverage its financial strength, creative product solutions and strong client relationships to achieve strong new business results and increase market share, despite slower growth in certain segments of the industry.



JOSEPH-CHARLES FRANCHÈRE  DR. HINGSTON AND THE OPERATING ROOM 1905
COLLECTION DES RELIGIEUSES HOSPITALIÈRES DE SAINT-JOSEPH

This painting is a portrait of William Hales Hingston (1829–1907), a renowned surgeon and key figure in the history of Montréal's Hôtel-Dieu hospital. In addition to his brilliant career in medicine, he served as mayor of Montréal from 1875 to 1877, Member of Parliament and senator, and was a collector; Queen Victoria made him a baron. As mayor, he introduced the first real municipal sanitation policy, in 1876, coupled with a vaccination campaign. Franchère paints Hingston (at the centre of the composition) busily preparing to operate on an anesthetized patient. The unusual composition of the scene reaffirms Franchère's novel conception of portraits and his search for an alternative to the academic conventions of the time.

Nursing as a profession came into its own at the turn of the 20th century. Student nurses, whether nuns or members of the laity, learned their profession in the hospital, in direct contact with patients. Their commitment and remarkable work were vital to the community at the time. In 1883, Augusta Stowe-Gullen was the first woman to obtain a degree from a Canadian medical school, the Toronto Woman's Medical College. Her mother, Emily Howard Stowe, and Jennie Trout became the first women to practice medicine in Canada, having obtained their degrees in the United States. In 2004, nearly half of doctors under the age of 40 in Canada were women.

GREAT-WEST LIFE & ANNUITY

UNITED STATES



Great-West Life & Annuity is a national employee benefits provider with expertise in creative health care management solutions. The company is also a leading provider of retirement savings plans.

GWL&A offers traditional group health plans as well as consumer-driven plans that are supported by its nationally recognized disease management program. It also provides a variety of employer-sponsored retirement savings plans, annuity and life insurance policies, and private label record-keeping and administrative services for other providers of defined contribution plans.

The company's products and services are marketed nationwide through its sales force, brokers, consultants, discount brokers and financial institutions, as well as a network of independent agencies.

Over \$4 billion
in assets under management

5 million
U.S. customers

Number 1
in state defined contribution plans



GREAT-WEST LIFE & ANNUITY

UNITED STATES



Strong operating performance increased earnings in U.S. dollars from Great-West Life & Annuity's Healthcare and Financial Services divisions in 2005.

Continuing a tradition of partnering with employers, GWL&A provided new tools and services to help clients and their employees manage health care costs and build financial security.

GWL&A's Healthcare division, known as Great-West Healthcare, demonstrated its commitment to cost savings with an integrated, consumer-driven health product suite and award-winning support program. It expanded its capacity in the specialized third-party administration market to strengthen its competitive position.

The Financial Services division continued its growth with a significant increase in retirement plan participant accounts and gains in individual markets. It responded to the changing landscape by introducing new products and services to meet the evolving needs of businesses and individuals.

To streamline administration while maintaining high standards of service to its customers, GWL&A announced the merger of its two New York-licensed subsidiaries. The new combined company will carry on business as First Great-West Life & Annuity Insurance Company.

At the end of 2005, William T. McCallum retired as President and Chief Executive Officer of GWL&A after a distinguished 41-year career and was appointed Vice-Chairman of the Board. Raymond L. McFeetors assumed the role of President and Chief Executive Officer, in addition to his position as President and Chief Executive Officer at Great-West Lifeco and at Great-West, London Life and Canada Life.

GREAT-WEST HEALTHCARE

In 2005, GWL&A's Healthcare division made great progress in advancing its position as a leader in consumer-driven health care (CDHC). In the company's first full year offering an integrated CDHC suite, including Great-West Healthcare Consumer Advantage, a health savings account (HSA) and a health reimbursement account (HRA), the CDHC portfolio exceeded seven per cent of GWL&A's enrolment, more than double the industry average of 3.3 per cent (based on published industry figures).

An outside consulting firm verified that the Great-West Healthcare Consumer Advantage plan reduced the use of medical services more than five per cent versus expected utilization for Great-West Healthcare's Preferred Provider Organization (PPO) (Reden & Anders, March 2006). Customers welcome this proven alternative as an option to control health care costs.

HSA enrollment also exceeded expectations as sales continued to gain momentum. About 17 per cent of the HSAs sold were full-replacement plans, and early reports indicated that approximately 45 per cent of employers were contributing funds to their HSAs.

Great-West Healthcare also launched a new magazine devoted to CDHC. *Trailblazer* is a resource to assist decision makers with health plan choices. The newsstand-quality magazine for employee benefits managers, brokers and consultants presents alternative viewpoints and information on significant issues relating to employee health care.

To gauge Americans' opinions about health care, GWL&A commissioned a Consumer Attitudes Toward Health Care study. The findings revealed that consumers are not saving for future health care needs and do not have a solid understanding of the actual cost of care. This is the first of what is planned as an annual audit of consumer attitudes toward health care and health insurance. The findings will be used to improve products and services for employers and members.

Great-West Healthcare earned an industry award for its Driver's Ed — Roadmap to Smarter Health Care Choices program. This online newsletter was recognized as one of the nation's best consumer health information programs and materials. The program, launched in 2004, teaches employees the costs of employer-sponsored health care and how they can help control them. In view of the consumer survey results, it appears to be much needed. It takes aim at the issues addressed in the survey, and provides employees with the resources to better manage their health plans and become more knowledgeable health care consumers.

NETWORKS AND PARTNERSHIPS

Over the course of 2005, the size competitiveness of the company's national provider network improved considerably. Medical professional recruitment initiatives resulted in an increase in the total number of contracted providers to 547,000 nationwide. During the same period, the company increased its number of contracted facilities to a total of 4,250, and continued to improve the competitiveness of facility and physician effective discounts.

GWL&A received health utilization management re-accreditation for its nationwide Great-West Healthcare PPO and Point of Service (POS) plans from URAC, a health care accrediting organization that establishes quality standards for the industry. The plans have held health utilization management accreditation since 1997 and were re-accredited through July 2007.

Several network partnerships were also established in 2005. ValueOptions was selected to provide behavioural health programs to plan members. The agreement increases the number of behavioural health locations available to Great-West Healthcare members. ACN Group Inc. will provide nationwide chiropractic network and management services. In addition to a larger network of providers, members will also benefit from bigger discounts and enhanced network management services. MedSolutions Inc. partnered with GWL&A to reduce unit cost and improve management of radiology services, resulting in savings for clients. Over the past two years, the strategies implemented have generated momentum to increase the competitiveness of the company's network discounts.

The company also expanded its specialty risk market segment, which focuses on third-party administrators and other specialized distribution channels. In September, GWL&A completed the acquisition of Mediversal, Inc., a health care services company that administers claims for employers with self-funded group health and workers' compensation plans. It serves 65,000 members, primarily in the Las Vegas area.



MARC-AURÈLE DE FOY SUZOR-COTÉ  YOUTH AND SUNLIGHT 1913
NATIONAL GALLERY OF CANADA

Born in Arthabaska, Québec in 1869, Suzor-Coté travelled to Paris for the first time in 1891, where he studied at the École des beaux-arts and at the Académie Julian, among others. The extended stays in France that punctuated this artist's career were a determining influence on the development of his impressionist style, of which this portrait is one of the finest examples. Here Mariette Coté poses for her uncle, whose rendering of the tender green grass and brilliant white light creates a halo of purity around his young model, evoking an allegory of spring. For Suzor-Coté, the female figure was a pretext for experimenting with plasticity, avoiding the direct confrontation between the model's gaze and the spectator's. In this painting he overcomes the artist's customary reserve through the privileged family relationship he enjoys with the model.

Through their attire, young women took care to convey their innocence and modesty, as well as their sense of elegance. For many centuries, women corseted themselves to achieve a slender-waisted ideal of feminine beauty. Good manners and etiquette imposed a strict dress code on women, including wearing a hat and gloves in public. At the beginning of the 20th century, regardless of their age, bourgeois women avoided the sun; a dark complexion was considered to be the hallmark of country folk.

NEW PRODUCTS AND PROGRAMS

Sustaining a commitment to providing the best products and services for members and clients, GWL&A converted health plan members to a sole pharmacy benefits manager, Express Scripts, Inc. Despite the large-scale transition, the claims processing rate exceeded industry standards shortly after launch. Plans call for a new 90-day retail drug program to be offered alongside mail order for those members who prefer to visit a pharmacy.

Great-West Healthcare strengthened its award-winning disease management program with two new programs. Plan members can now participate in programs for end-stage renal disease and chronic pain, and have access to an enhanced maternity management program. In addition, a new wellness program gives employers an opportunity to lower costs and increase productivity as it focuses on helping employees address unhealthy habits.

The company's revamped medical pharmacy program was in place well ahead of the U.S. government compliance date. The new IRS regulation calls for all HSA participants to enroll in high-deductible health plans (HDHPs) under which all pharmacy benefits must be applied to the medical portion of the plan. This new government mandate is anticipated to produce a shift in consumer consciousness and behaviour. As co-payments no longer shield consumers from the full cost of a prescription, it is expected that more will choose generic versus brand-name drugs, thus driving down costs. The program allows plan members to purchase prescription drugs through 59,000 participating retail or mail-order pharmacies nationwide, and features discounts and automated claims processing, which reduces paperwork and speeds reimbursements.

Employer customers of Great-West Healthcare now have the flexibility of adding extensions to their flexible spending accounts (FSAs). Up to two-and-a-half-month extensions give members extra time each year to spend their tax-sheltered funds for medical expenses. Additionally, new FSA options included direct deposit and automatic claims submission capabilities, which save members time and paperwork.

A new Health Plan Performance Reports Web portal gives employers more up-to-date information on how their health plans are running. This reporting capability is particularly important to the company's self-funded clients. As these clients pay only for claims incurred, this insight helps them see where their health care dollars are being spent and plan accordingly.

Great-West Healthcare again was a benefits industry innovator as the first to offer a payroll deduction credit card to employers with consumer-driven or other high-deductible health plans. The new CLEAR Card helps members budget out-of-pocket health care expenses and supports growth of consumer-driven health plans. It is processed like any other credit, debit or cheque card and can help members spread out payment of the greater out-of-pocket health care expenses typically associated with such plans. The company also successfully completed a trial of a unique technology to enhance customer service. The technology detects callers' language patterns and personality preferences so customer service representatives can tailor their responses for more efficient and satisfying member service.

The company increased the number of both courses and instructors available through its continuing education program. The courses help insurance brokers sustain their licences and further their knowledge of employee benefits. The number of states in which the programs are licensed more than tripled in 2005. Classes about CDHC, disease management and self-funding were attended by more than 500 brokers.

FINANCIAL SERVICES

GWL&A's Financial Services Division continued to grow in 2005, with a significant increase in the number of plans and participants served by its Retirement Services unit and gains in its Individual Markets lines of business.

A leading provider of defined contribution products and services to corporate, government, health care/non-profit and institutional clients, Great-West Retirement Services increased its participant base by 9.8 per cent to more than 2.7 million accounts in 2005. Contributing to this rise were the addition of several major governmental clients, as well as new institutional partnerships.

The advisory suite of services offered through Advised Assets Group, LLC (AAG), GWL&A's registered investment adviser subsidiary, made strides in the marketplace. In addition to online investment guidance and online investment advice, the Reality Investing suite gives retirement plan participants a managed-account option. With this choice, AAG allocates the participant's account assets among the investment options in their plan in accordance with a strategically designed portfolio based on data resulting from methodologies and software developed by Ibbotson Associates, Inc., an independent financial expert retained by AAG. A few months after introduction of this service, more than 16,000 participants with a total of over \$203 million in assets had enrolled in managed accounts by the end of the year.

Individual Markets launched new individual life insurance products for sales through financial institutions and achieved gains in business-owned life insurance.

RETIREMENT SERVICES

As 2005 brought regulatory changes and widespread calls for providers and plan sponsors to provide full disclosure of fees, open-architecture plans, and non-proprietary investment options, as well as a continuing trend for financial institutions to outsource retirement administration and record-keeping functions, Great-West Retirement Services was well positioned to respond to market needs and capture new business.

FASCore INSTITUTIONAL MARKETS Now known as FASCore, LLC, GWL&A's record-keeping subsidiary converted its legal structure from a corporation to a limited liability company in the fourth quarter of 2005. It also updated its name from Financial Administrative Services Corporation (FASCorp) to FASCore in order to reflect the company's core mission of providing superior retirement plan record-keeping and administrative services.

Enhancing its position as a leading provider of retirement plan outsourcing services to major financial services institutions, FASCore formed strategic partnerships with three additional institutional clients to assume record-keeping and administrative functions for their defined contribution business. Capitalizing on its ability to provide these private-label services led to a 12.7 per cent increase in institutional participant levels in 2005.

FASCore also created an enhanced package of bundled services for third-party administrators and payroll providers. In addition, its new Payroll Bridge program introduced a streamlined payroll interface for plan sponsors that allows their payroll providers to transmit files directly to FASCore each pay period. Payroll Bridge saves clients time and eases their administrative workload through fully automated processing.

To present a comprehensive and integrated solution for clients that sponsor defined benefit plans as well as defined contribution plans, FASCore began developing a total retirement services product. The new product will offer seamless retirement plan administration to plan sponsors and provides a complete picture of retirement assets for their participants. This offering is expected to be implemented for the first clients in September 2006.

Also for 2006, FASCore enhanced its record-keeping system to accept and track Roth after-tax contributions to 401(k) and 403(b) plans effective January 1.

CORPORATE 401(K) MARKETS Working closely with brokers and advisers paid off for the small-market corporate 401(k) sales team in 2005. Recommendations from partners led to the development of a more customizable product, with different levels of services that can be selected based on the plan sponsor's needs. These enhancements, along with the addition of more pension consultants and a new internal wholesaling team, led to a 28 per cent increase in sales over the previous year.

The group's Client Relationship Management field team and newly introduced Internal Relationship Management team also helped improve client retention rates to 91 per cent, higher than the small-market industry average.

Following the rollout of Reality Investing to the 401(k) market, about 30 per cent of plans in this block of business incorporated the suite of advisory services for their participants.



PRUDENCE HEWARD  AT THE THEATRE 1928
THE MONTREAL MUSEUM OF FINE ARTS

Two sisters of the painter Sarah Robertson, one of Heward's friends, posed for this painting. Its modern appeal derives as much from its Art Déco-influenced treatment of dominant forms as from the subject itself, which is unusual in Canadian art. Heward produced this major painting between two trips to Paris to pursue her studies: the first, in 1925, was to the Calarossi studio and the second, in 1929, was to the Scandinavian studio. Heward, like Robertson, was a member of the short-lived Beaver Hall Group (1920–1921) in Montréal. This group was composed mainly of women who played a very significant role in articulating and disseminating new modernist artistic currents in Canada. Most members of the group were former students of William Brymner. The Beaver Hall Group maintained close contact with the Group of Seven in Toronto.

Without Dora Mavor Moore, actress, drama teacher and stage director, English Canadian theatre would not have grown as it did in the first half of the 20th century. In the throes of the Depression, and although she was the mother of three children, Mavor Moore never quit: she continued to teach and direct theatre in Ontario. In 1938, she founded the Village Players troupe, which presented Shakespeare's plays in schools and, in 1946 in Toronto, the New Play Society, which by 1956 had presented no fewer than 47 original works. Today, theatrical excellence is recognized by awards that bear Dora Mavor Moore's name.

GOVERNMENT MARKETS The addition of several state deferred compensation plans and renewals of agreements with a number of major clients led to a net increase of 137,000 participants in the Government Markets segment. GWL&A was awarded contracts with the states of Indiana and Wisconsin and a second contract with Vermont to augment its position as the largest provider of services to state defined contribution plans, serving 16 of 50 states.

The company also added the Colorado County Officials and Employees Retirement Association as a client in 2005, while renewing relationships with other large clients, including the state of Colorado, Los Angeles County, and the cities of Houston, St. Louis, and Jacksonville, Florida. These efforts resulted in an 11.8 per cent increase in the number of government plan participants, for a total of nearly 1.3 million by year-end.

Customized communication materials for several government clients brought awards from organizations like The National Association of Government Defined Contribution Administrators (NAGDCA) and *Pensions & Investments* magazine.

HEALTH CARE, OTHER MARKETS GWL&A's largest sale in the health care retirement market in several years brought Detroit Medical Center on board as a client in 2005. The health care markets group has a substantial number of prospects in its pipeline.

The large 401(k) market, defined as plans with \$30 million or more in assets, has been an untapped market for GWL&A. After extensive research in 2005, the company plans to expand its outreach to this business segment in the coming year.

In the first quarter of 2006, Great-West Retirement Services also plans to launch new education and communication campaigns for clients, with a fresh look, additional services for online and DVD delivery, and an expanded education library.

INDIVIDUAL MARKETS

In GWL&A's Individual Markets area, new products and packages helped boost premiums in Financial Institutions Markets and Business-Owned Life Insurance in 2005.

FINANCIAL INSTITUTIONS MARKETS The Financial Institutions Markets business provides life insurance and annuity solutions for customers of its financial institution partners. While the business line continued to grow in 2005, the pace slowed as product arrays and business processes were enhanced to improve overall performance. Face amounts and premiums per policy written trended higher following the company's launch of new higher-face-amount and 20-year term products. Sales process changes, such as requiring first payment with an application, resulted in improved customer persistency. GWL&A also launched a single-premium life insurance wealth transfer product incorporating simplified sales, application and approval processes.

During the year, the company added several financial institution partners and initiated a faster new-partner implementation plan, which allows programs to be activated with new partners more quickly, efficiently



ALFRED PELLAN  SECRET CONVERSATION CIRCA 1945
MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

After spending 14 years in Paris, Pellán returned to Québec in 1939. His work as a painter, and as a teacher at the École des beaux-arts de Montréal, was to play a decisive role in spreading throughout Canada the innovations in painting that he had observed in the works of Miró, Ernst, Braque and Léger, with whom he had come into contact, and Picasso, whose works he admired. Pellán assimilated these influences into his own very personal style. From Braque, he retained the synthesis of forms; from Picasso, the theatricality of composition and multiplication of points of view; from Léger, the monumentality of figures; from Matisse, the use of pure colours. Running parallel to these influences is the surrealist imagination, inherited from the disciples of André Breton, that is reflected in Pellán's works, primarily through the evocative power of the objects depicted.

At the end of the 19th century, the women's movement had become international in scope. In Canada, feminists were organizing and demanding access to education, legal competence and the right to work and to vote. The chief battle cry was the call for recognition as self-sufficient individuals. The movement tended to grow out of associations of women engaged in social work. The National Council of Women of Canada, founded in 1893 by Lady Aberdeen, the wife of the Governor General, became a catalyst for the political struggle. Women in Western Canada were the first to obtain the vote in 1916–1917. In Québec, even though they had pressed for it since the beginning of the 20th century, women were not granted the vote until 1940.

and cost-effectively. GWL&A's partners in this market represent a sales force of more than 10,000 licensed professionals to sell the company's products using its state-of-the-art online sales system. This system enables on-the-spot approvals and immediate coverage for qualified applicants, as well as a direct interface to GWL&A's administration systems.

A new single-premium whole life product, Family Legacy, was specifically designed with the unique needs of financial institution market sales professionals and their end customers in mind. Family Legacy provides an appropriate life insurance solution for those who wish to pass on a specific sum to their heirs. Within a few months after the product was launched with just one partner in 2005, over \$2.3 million in premiums were sold. Two other large partners have been enrolled to sell this new wealth transfer product in early 2006.

In the coming year, the Financial Institutions Markets group plans to market Family Legacy to additional existing and new partners, and has realigned its marketing and sales resources to more directly support its partners' sales needs across its product array. The company expects its continued focus on market-driven solutions, simple sales processes, customer persistency, and helping its partners succeed will enable further growth of this business.

BUSINESS-OWNED LIFE INSURANCE The Business-Owned Life Insurance (BOLI) group offers flexible solutions to corporate and financial institution clients that wish to finance non-qualified executive benefit plans through the use of life insurance. GWL&A continued its core distribution partnership with Clark Consulting.

In 2005, the BOLI group launched a non-qualified deferred compensation product package funded with corporate-owned life insurance in conjunction with Great-West Retirement Services. The product is marketed through the 401(k) plan distribution system to existing and prospective 401(k) clients, as well as companies that may be looking only for a non-qualified plan. This new package offers large-case benefit plans and pricing to smaller business customers.

GWL&A also resumed selling general account BOLI products late in 2005. Sales of these general account products — backed by the company's general assets rather than by assets in a separate account — boosted premiums paid. Total new premium for 2005 was up 42 per cent from 2004.

TRADITIONAL MARKETS GWL&A remains committed to providing excellent service and high value to its in-force life and annuity policy owners. A dedicated service unit works in collaboration with agents and brokers to assist policyholders to continue to receive the information and service they need to make sound financial decisions with respect to their policies. This partnership has allowed GWL&A to enjoy excellent persistency on its in-force block of both life and annuity policies.

IGM FINANCIAL



IGM Financial's activities are carried out principally through Investors Group, Mackenzie and Investment Planning Counsel.

Together these companies are one of Canada's largest mutual fund organizations, managing almost twice the assets of their next competitor. They hold a 16 per cent market share, with mutual fund assets under management of \$94 billion, and total assets of over \$100 billion.

IGM Financial's goal is to provide superior long-term returns to shareholders.

1990-2005: 22.4% 1990-2005: 21.3%

annual compound total return to shareholders

\$0.6 to \$12.3 billion

fifteen-year growth in market capitalization

\$1.8 billion

aggregate dividends paid to shareholders over fifteen years



IGM FINANCIAL



MURRAY J. TAYLOR
Co-President and
Chief Executive Officer



CHARLES R. SIMS
Co-President and
Chief Executive Officer

IGM Financial and its operating companies enjoyed continued growth in 2005. The company's two principal businesses — Investors Group Inc. and Mackenzie Financial Corporation — each enhanced their ability to compete, and momentum continued to build in areas such as sales, product breadth, investment management, recruiting, and retention. The company remains focused on supporting financial planners and investors in achieving their financial goals.

FINANCIAL OVERVIEW

Net income for the year ended December 31, 2005 was \$682.4 million, compared to adjusted net income of \$615.6 million in 2004, an increase of 10.9 per cent. Earnings per share were \$2.56, an increase of 10.8 per cent compared to adjusted earnings per share of \$2.31 in 2004. Adjusted net income and earnings per share for 2004 excludes a non-recurring expense. Net income in 2004 without adjustment totalled \$596.4 million. Earnings per share on this basis were \$2.24. Dividends increased for the sixteenth consecutive year, rising 18.5 cents to \$1.335 per share for the year.

INDUSTRY PERSPECTIVE

In 2005, sustained positive performance across equity markets delivered significant returns for Canadian investors and contributed to growing investor confidence, which resulted in strong mutual fund flows within the industry. The Investment Funds Institute of Canada (IFIC) reported stronger net sales of long-term funds for 2005 compared to a year ago, and the highest levels since 1998. Net sales of long-term funds for the industry were \$25.1 billion for 2005, compared to \$16.6 billion in 2004, an increase of over 50 per cent. IFIC reported that, as at December 31, 2005, mutual fund assets had increased by 14.6 per cent year-over-year to approximately \$570 billion.

OPERATING HIGHLIGHTS

Growth of the Investors Group consultant network continued to be strong in 2005. By increasing management and leadership expertise in regional offices and expanding its regional office network, Investors Group continued to build its consultant network and develop a strong and experienced leadership team across the country. Net sales of mutual funds rose significantly from \$218 million to \$778 million during the period. The company continued to react effectively to the complex financial needs of its clients by delivering a diverse range of products and services combined with sound, personal financial advice.

Mackenzie maintained a strong focus on delivering quality through all aspects of its operations. This quality is evidenced by the strength of Mackenzie's relationships with financial advisers, its commitment to experienced and talented investment management, and its focused service to advisers and investors. Mackenzie was rewarded in 2005 by strong sales performance and growth in retail and institutional assets under management.

IGM Financial continues to improve the fundamentals of its business approach by providing a strategic focus on multiple distribution channels with a variety of high-quality advice, products and services. The company's scale and investment in its operating companies help it to achieve synergies for investors and grow its business over time. Prudent management of operating costs within the context of sustained growth positions the company to respond to opportunities in an increasingly consolidating market environment.

INVESTMENT PLANNING COUNSEL

Acquired by IGM Financial in 2004, Investment Planning Counsel is an integrated financial services company focused on providing Canadians with high-quality financial products, services and advice, while helping them achieve their financial dreams. Investment Planning Counsel is a leading choice for independent financial planners dedicated to delivering quality, client-focused advice.

In 2005, Investment Planning Counsel saw assets under administration increase from \$8.0 billion to over \$8.9 billion, while assets under management grew from approximately \$1.5 billion to \$1.9 billion.

Investment Planning Counsel partners with over 500 advisers across the country and continues to attract some of Canada's leading financial planners.

The relationship between IGM Financial and Investment Planning Counsel provides a solid foundation for growth and excellence. The scale, strength, and expertise of IGM Financial allows Investment Planning Counsel to improve operational efficiencies in various processes such as compliance and back-office infrastructure. The relationship enables the company to provide its advisers with a strong and stable operating environment, thereby allowing them to build a better business, while providing enhanced client service.

In addition to its mutual fund products, advisers have access to insurance, securities and mortgage products. This attractive product offering gives advisers an extensive range of financial products to support their service to clients. In 2005, Investment Planning Counsel continued to draw on its relationship with the IGM Financial group of companies, allowing them to create a more substantial offering for their clients and advisers.

LEADERSHIP

In May 2005, R. Jeffrey Orr assumed the position of President and Chief Executive Officer of Power Financial. Succeeding Mr. Orr as Co-Presidents and Chief Executive Officers of IGM Financial are Murray J. Taylor and Charles R. Sims. Both Mr. Taylor and Mr. Sims continue in their roles as President and Chief Executive Officer of Investors Group and Mackenzie Financial, respectively. Mr. Orr continues to be actively involved in the oversight of IGM Financial in his role as Chairman of the Executive Committee of the Board for IGM Financial. Mr. Taylor and Mr. Sims lead an experienced and talented management team that is committed to clients, consultants, adviser network and employees.

MEETING NEEDS

There is an increasing recognition among Canadian investors that sound personal financial advice is integral to building a secure financial future. IGM Financial is well positioned to meet that growing need. The company's leadership will be defined by its performance over the long term — through support of investor needs, its commitment to providing quality investment advice and financial products, service innovation, and prudent and effective management of the company.

The company has invested strategically in its business, focusing the strength of the organization on developing its businesses to deliver strong value to clients and investors.

INVESTORS GROUP

Group | Culture | Values

Investors Group provides personal financial services to close to one million Canadians. The Investors Group portfolio includes 137 mutual funds, segregated funds and managed asset funds.

The products are distributed through Investors Group's own network of approximately 3,600 consultants who offer personalized service from the company's 115 financial planning centres across Canada.

Investors Group also offers insurance products and mortgages, as well as banking and securities products and services.

1 million
Canadians served

\$50.7 billion
in mutual fund assets

3,600
Investors Group consultants

Group | Culture | Values

INVESTORS GROUP



Investors Group has a strong commitment to building long-term client and consultant relationships. The company provides comprehensive financial planning advice and services, including investment, retirement, estate and tax planning, through a network of more than 3,600 consultants to nearly one million Canadians. Investors Group offers investment management, securities, insurance, banking and mortgage products and services to its clients through integrated financial planning.

HIGHLIGHTS

- › Drawing on the growth of its consultant network and experienced field leadership, Investors Group added seven new regional offices and significantly increased field management positions across the country to better support and mentor consultants.
- › Growth of the consultant network remained strong, increasing from 3,496 to 3,668 consultants in 2005. To the end of 2005, the company had experienced six consecutive quarters of incremental growth.
- › Driven by improved investment performance, strong consultant retention, and increased client satisfaction and loyalty, the redemption rate for Investors Group's long-term mutual funds has declined to 8.7 per cent, down 0.4 per cent from the previous year.
- › Sales momentum continued to be strong. Mutual fund gross sales increased by 16.2 per cent in 2005 to \$5.5 billion. Net sales of mutual funds were \$778 million, up from \$218 million in 2004.
- › Investors Group's commitment to building enduring relationships remains a key long-term focus. These relationships are built one at a time, as the financial needs of close to one million clients are served through the expertise of the company's 1,600 employees and more than 3,600 consultants across Canada.

This has been a year of marked progress for Investors Group. Growth in field management appointments and the expansion of the regional office network has allowed the company to expand its consultant team across the country. The company continues to focus on building long-term relationships with clients by effectively identifying and meeting their complex financial needs. This is done through sound personal financial advice combined with the delivery of a diverse range of products and services.

BUILDING ON A FOUNDATION OF STRENGTH

Growth of the Investors Group consultant network continued strong in 2005. Growth since mid-2004 is the result of the improvements to the company's effective, successful training and support programs that occurred in 2003 and 2004. This has resulted in six consecutive quarters of network growth.



LILIAS TORRANCE NEWTON  PORTRAIT OF ETHEL SOUTHAM DATE UNKNOWN
NATIONAL GALLERY OF CANADA

Newton produced more than three hundred official portraits during her career. Her subjects included notable personalities, relatives and friends, of whom some were members of the Southam family. She travelled all over Canada to carry out her numerous commissions, becoming one of the finest portrait artists in the country. For Newton, painting a woman was a special event. In an interview published in the Montréal daily *The Gazette* in 1957, she explained that female sitters gave her an opportunity to work with more colours and to produce a more imaginative portrait, because of the clothes women wear and use to express themselves. It might be added that Newton's modern style of painting made her special interest in colour and pigment more apparent to the observer.

Portraits have been commissioned throughout history; they help raise an individual's standing in society. Wealthy or socially prominent families adopted this practice and, as a result, became important patrons of the arts. The Southam family was part of this tradition. Ethel Southam grew up in a world in which art was ever present. Her father, Harry Stevenson Southam, publisher of the *Ottawa Citizen*, was a collector, donor and patron of Canadian art. Following in her father's footsteps, Ethel also took an interest in the arts and, through her patronage, helped the National Gallery of Canada acquire a number of major works.

Fundamental to this success is the attractiveness of Investors Group's strategic approach and commitment to comprehensive, holistic financial planning. Investors Group's culture is unique and entrepreneurial, providing consultants with the right environment to deliver personalized service and knowledgeable advice to clients.

Investors Group further strengthened the quality of its consultant network by increasing the depth of expertise in regional offices across the country. The company introduced seven new regional offices and significantly increased the number of individuals in field management roles. Each office is supported by several Division Directors, who play key roles in the recruitment, training and ongoing mentoring of new consultants. During 2005, there was a 16 per cent growth in the field leaders associated with its regional offices. By deepening the management and leadership strength in these offices, Investors Group is better able to support new and established consultants in delivering effective financial planning advice to clients. This is also expected to serve as a source of long-term strength.

Investors Group continued to support consultants with high-quality training programs. In 2005, it introduced an improved field-based training program for new consultants. The program takes advantage of its increased leadership strength regionally, and provides new consultants with mentorship and the ongoing support of experienced managers. The company's commitment to training and support of consultants is considered to be unique in the industry. The excellence of its training programs, ongoing mentorship and field leadership have supported the growth of the Investors Group consultant network, while improving its consultants' ability to deliver effective financial advice in an increasingly complex market.

BUILDING THROUGH INNOVATION

Investors Group has the unique ability to offer an industry-leading range of products and services to meet clients' diverse needs. In addition to \$51 billion in mutual fund assets, Investors Group helped clients establish \$37 billion in in-force insurance coverage and \$5 billion in banking and mortgage loan balances.

Consultant and client support of the Symphony Strategic Investment Planning (Symphony) approach continued to grow. The Symphony planning approach enables consultants to build optimized risk-adjusted portfolios and provides enhanced reporting features. Net flows to the Symphony-based Alto and Allegro Portfolios increased 34 per cent year-over-year. Enhancements to Portfolio Tuner, Symphony's portfolio rebalancing application, resulted in a significant increase in usage of the application within weeks of its launch in September 2005. Use of Symphony and Portfolio Tuner should continue to increase as consultants embrace these productivity tools to provide enhanced portfolio management and service to clients.

Late in 2004, Investors Group introduced seven new mutual funds, including three monthly income funds, an income trust fund, and a real return bond fund, resulting in additional asset growth throughout 2005.



STANLEY COSGROVE  THE BLUE DRESS 1949
NATIONAL GALLERY OF CANADA

After spending five years in Mexico during which he studied with the celebrated painter and muralist José Clemente Orozco, Cosgrove returned to Montréal in 1943. He was appointed professor at the École des beaux-arts de Montréal, a position he held until 1970. Orozco was a seminal figure in modern Mexican art, known for the sense of political and social commitment expressed in his work. From his apprenticeship with Orozco, Cosgrove acquired his sculptural, or monument-like, treatment of the human figure in close-up, with broad brushstrokes softened by shades of dark colours. The dark outlines of the features, accentuating the contours of forms and of the face, in particular, express a simplicity mixed with a certain tenderness that reveals the introspective mood of the model.

Whether chosen, suffered or embraced, celibacy was long defined in relation to marriage. A young woman was at first single but, if she remained unmarried, she came to be called a “spinster” or an “old maid.” Often the lot of women whose duty was to take care of family members, female celibacy was an established way of life for some. Many single women devised ways and means to counter loneliness and isolation: in many families, for example, sisters lived together.

The company applies its experience and expertise in investment management to bring timely and innovative products to Canadian investors. With the continuing success of Investors Canadian Dividend Fund, the largest mutual fund in Canada, Investors Group announced the introduction of Investors Global Dividend Fund in late 2005. This fund is suited to the needs of an aging population desiring equity-based income. The fund combines the benefits of a quality, large capitalization equity fund with dividend payments, giving investors the dual advantage of income and growth. This new Global Dividend Fund draws on the strength of Investors Group's investment management resources around the world.

The company's holistic approach to financial planning is enhanced through the evolution and expansion of its product and service offering.

BUILDING COMMUNITIES

In 2005, Investors Group continued its support of the communities in which its employees, consultants and clients live and work. Once again, consultants and employees have given generously of their time and expertise, supporting many local charitable organizations.

Corporately, Investors Group supports the United Way through contributions to local campaigns across Canada. As a major partner of Volunteer Canada, the company also encourages volunteerism throughout the country. In addition, Investors Group continued its support for the Canadian Association of Food Banks in 2005 through Food for Thought, a national campaign of local initiatives to raise awareness about hunger-related issues.

Investors Group is committed to corporate citizenship and building strong, enduring partnerships with communities. Investors Group is a people company and believes that these relationships are an integral part of the company. To support employees and their exceptional efforts across Canada, the company launched the Employees in Action initiative, which supports employees in their community involvement.

CONFIDENCE DEEPENED

Investors Group is not only growing, it is growing stronger. With six consecutive quarters of sustained growth of the consultant network, enhanced management strength and expertise in the field, as well as a proven program of training and support, the company is confident of its ability to provide valuable personal financial advice to clients.

The active engagement of employees, the continual refinement of the financial planning process, and the expansion of its product and service offering demonstrate the company's commitment to meet the evolving financial needs of Canadians.

Investors Group remains focused on providing Canadians with knowledgeable financial planning advice combined with high-quality products and services. The company's commitment to building enduring relationships is strong, as is demonstrated by its partnership with consultants, long-term relationships with clients, and support of communities.

MACKENZIE FINANCIAL

Mackenzie, through relationships with over 30,000 independent financial advisers across Canada, provides a broad array of products to over one million investors.

Mackenzie holds a 7.6 per cent share of the Canadian mutual fund market. Through a subsidiary, it is the leader in offering trusteeship and administrative services, as well as banking products, to the independent financial planner distribution channel.

Over 1 million
Canadians served

\$50 billion
in fee-earning assets

30,000
independent financial advisers

MACKENZIE FINANCIAL



Founded in 1967, Mackenzie Financial is recognized as one of Canada's premier investment managers providing investment advisory and related services in North America. The company strives to provide strong, relatively long-term investment performance. Mackenzie has established and continues to build strong relationships with independent financial advisers, providing a diversified distribution network for its services and products. Under the Mackenzie master brand, the company deploys a sub-branding strategy that includes Cundill, Ivy, Maxxum, Sentinel, Select Managers, and Universal. Mackenzie also provides asset allocation and managed product investment solutions through the Keystone and Symmetry brands.

HIGHLIGHTS

- › At December 31, 2005, 65 per cent of Mackenzie's mutual fund assets under management were ranked in the first or second quartile on a five-year performance basis, and 54 per cent of its assets under management were ranked in the first or second quartile on a 10-year performance basis.
- › During 2005, Mackenzie continued to build and develop relationships within the financial advisory channel, resulting in mutual fund sales of \$8.1 billion. Net sales increased to \$1.2 billion in 2005, versus net sales of \$795 million in 2004.
- › At the Canadian Investment Awards in December 2005, the Mackenzie Universal Canadian Resources Fund was voted top Natural Resources Equity Fund, and the Mackenzie Cundill Recovery Fund was named top Global Equity Fund of the year.
- › Investor confidence remained high in 2005. The Canadian market proved to be one of the best-performing developed markets in the world, and Mackenzie has benefited from that confidence as fund flows continued to increase.

Operationally, quality is an important characteristic of Mackenzie's approach to its business.

QUALITY IN INVESTMENT MANAGEMENT

Mackenzie seeks to focus on providing superior long-term investment returns. A quality approach to investment management helps the company to consistently deliver returns to investors. The management process, the depth and quality of research capability, and the talent of Mackenzie's fund managers and sub-advisers all contribute to its success over time. Sixty-five per cent of Mackenzie's mutual fund assets have enjoyed a five-year investment performance ranking that places them in the first and/or second quartiles of the funds' appropriate peer group. Mackenzie has some 69 funds with a Morningstar three-, four-, or five-star rating.



JEAN-PHILIPPE DALLAIRE  YOUNG GIRL READING 1950
COLLECTION OF POWER CORPORATION OF CANADA

Born in Hull in 1916, Dallaire lived in Paris for two years, where he studied under Maurice Denis and André Lhote, thanks to the Québec Prix de peinture that Dallaire was awarded in 1938. His discovery of the work of the surrealist Jean Lurçat, which he came across in Parisian art galleries, had a crucial effect on Dallaire's own oeuvre. The 1950s renaissance in the art of tapestry was largely due to Lurçat, who adapted its techniques to produce his surrealist works. Dallaire's interest in this art form deepened during his second stay in Paris in 1949, when he visited the Aubusson tapestry workshops. This work, painted the following year, clearly shows the influence of tapestry in its profusion of elements, use of colour and thick textures of oil, all reminiscent of woven wool.

Women have always found a special means of expression in the arts and in writing. Scores of women's diaries attest to this. The family home often provided the setting for mothers to introduce their children to the pleasures of reading and the arts, particularly music and singing. Although few women made a living as writers, international recognition of authors such as Margaret Atwood, Alice Munro, Gabrielle Roy and Anne Hébert in the mid-to-late 20th century demonstrated the vibrancy of the female literary imagination.

QUALITY IN DISTRIBUTION

The strength of Mackenzie's distribution network comes from the quality of relationships it enjoys across multiple channels. Mackenzie investment products are distributed to investors through retail brokers, financial advisers, insurance agents, banks and financial institutions, giving the company one of the broadest distribution platforms among investment companies in Canada. Mackenzie continues to further penetrate these channels, extending its distribution platform and building upon these important relationships within the financial advice channel.

In 2005, Mackenzie realized gross mutual fund sales of \$8.1 billion. Redemption rates on long-term funds were 14.8 per cent, up from 13.8 per cent in 2004. Strong sales performance is evidence of the strength and quality of Mackenzie's distribution network.

QUALITY IN SERVICE

Mackenzie is focused on the customer in the delivery of quality service to independent advisers and their clients. Service is available where, when and how it is needed, by telephone, online, or in person. The company strives to be responsive to customer needs and looks to continually improve service levels and cost efficiency.

Mackenzie offers adviser training and support through its educational programs. Through strong relationships built by Mackenzie employees, advisers benefit from ongoing education in leading business management and product training programs.

The success of these efforts is evidenced in a recent TARP survey. Overall satisfaction with Mackenzie among advisers was over 83 per cent in 2004, up significantly from 73 per cent in 2001. The survey also found that nearly 88 per cent of advisers are likely to recommend Mackenzie funds to their clients, and over 84 per cent would recommend Mackenzie to other advisers. Finally, the survey revealed that 38 per cent of advisers polled rate Mackenzie as the overall best investment management company, ahead of the nearest competitor at 25 per cent.



JEAN PAUL LEMIEUX  THE URSULINES 1951
MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

Born in Québec City in 1904, Lemieux studied at the Académie Calarossi, in Paris, after completing his training at the École des beaux-arts de Montréal in 1926. After becoming a teacher there and at the École du meuble during the early 1930s, he returned to Québec City in 1937, where he taught at the École des beaux-arts de Québec until 1965. In the early 1950s, Lemieux adopted a pictorial approach characterized by a schematization of forms and space. This was the genesis of the paintings, peopled by isolated figures in an immense expanse, for which this artist became so renowned during the following decade. The use of synthesized geometric planes for the nuns' robes and convent walls exemplifies the strong influence of the abstract trend that dominated painting during this period.

After a perilous three-month voyage, the first Ursuline nuns arrived in New France in 1639. In Québec City, they founded the first school for girls in North America. The missionary Marie Guyart (Mary of the Incarnation), who led the congregation, proved to be an exceptionally energetic woman. In France, before taking her vows, she had managed a transport business. Like many other religious congregations, the Ursulines provided women with an opportunity to practise professions that would otherwise have been difficult or impossible for them to enter, including management, music, painting, pharmacy, nursing and teaching.

OPPORTUNITY FOR GROWTH

In 2005, Mackenzie focused on three key areas that are believed to represent opportunities for the company's strategic growth.

INCOME FUND SECTOR

Asset class ownership trends continue to indicate a shift in investor preference from foreign equity funds to income funds. From 1999 to 2004, ownership of dividend income funds increased by 7 per cent industry-wide, while foreign equity fund ownership decreased 9 per cent.

Mackenzie continued to respond to this trend by again retooling the Maxxum fund family, introducing a monthly income fund and by expanding the product options in the Sentinel brand with an Income Trust Fund.

GLOBAL FUND SECTOR

While international and global equity have recently been out of favour with investors, the changes announced earlier in the year by the federal government to eliminate foreign content restrictions on registered retirement savings plans are expected to cause investors and advisers to review their portfolios. Mackenzie, in looking to anticipate this trend, added the Maxxum Global Explorer Fund to its already strong list of global and international fund offerings under the Cundill, Ivy, and Universal sub-brands.

INSTITUTIONAL MANDATES

Mackenzie recognizes institutional and sub-advisory mandates as an important component of its overall distribution strategy, and as such, is targeting expansion into these markets. These efforts were successful in 2005 with the expansion of a strategic relationship in the United States and the addition of Mackenzie mandates on a number of large institutional platforms in Canada during the year.

INVESTING IN COMMUNITIES

Mackenzie's commitment to quality and excellence in its business also applies in its commitment to community investment. Mackenzie has a long tradition of philanthropic giving. Mackenzie's community investment programs are focused on three areas — corporate philanthropy, employee volunteerism, and the Mackenzie Financial Charitable Foundation.

Mackenzie's corporate giving programs include support for a wide variety of charities at the national level. In addition, regional sales teams are afforded an opportunity to support charitable organizations locally.



HENRI MASSON  THE DUET 1954
PRIVATE COLLECTION

Born in 1907 in Namur, Belgium, Masson moved to Ottawa in 1924. He was self-taught, learning the rudiments of his art in an engraving workshop where he worked from the age of 16. He subsequently took a few courses at the Ottawa Art Association and the Ottawa Arts Club. As was the case with many young modern figurative painters, Masson was influenced by Cézanne, although more in his brushstroke and palette than in his composition. As his career unfolded, Masson developed a distinctive harmony of colours that became increasingly expressionistic, as can be seen in the depiction of this duo. It is part of a series dedicated to musicians—a recurring theme in his work, of which this painting is one of the earliest examples.

Many women singers, musicians and composers of the 19th century had remarkable careers. From 1872, Emma Albani sang on the most prestigious stages of Europe and the United States. Despite cultural imperatives that discouraged them from performing in public, numerous Canadian women gained international acclaim. Among these were Ethel Stark, Jean Coulthard and Violet Balestreri Archer, to name just a few. Founded in 1892 by Mary Bell, Montréal's Ladies' Morning Musical Club made a significant contribution to the professional recognition of female musicians.

Mackenzie's reputation is also earned by the leadership of its employees, a large number of whom are active volunteers in their own communities. Mackenzie offers its employees one paid day per year to volunteer at a charity of their choice. The company also offers programs to match employees' fundraising efforts. There are a variety of organized events to facilitate such opportunities, and these programs enjoy a high level of support and participation. Through a series of annual awards, Mackenzie recognizes employees for their volunteering and fundraising efforts. The success of these programs is believed to help foster a healthy and positive workplace, which in turn allows the company to attract and retain talented individuals to its team.

In 1999, the company established the Mackenzie Financial Charitable Foundation, a registered Canadian charity managed entirely by volunteer employees. The Foundation acts as a centralized body through which a significant portion of the company's charitable giving, volunteering and fundraising programs are co-ordinated. Its main areas of focus are in the fields of health services and health research, social welfare, education and in poverty-related causes, with a particular emphasis on charities that support children and young adults. The Foundation has grown steadily in its size and reach, enjoying increasing awareness among financial advisers and the Canadian investing public.

CATALYSTS OF CHANGE

By many measures, including assets under management, sales performance, adviser satisfaction, and industry recognition and awards, Mackenzie believes it has earned the privilege of claiming a leadership position in the industry.

The company's leadership is also measured by the quality it delivers, and by the integrity with which it seeks to conduct its business.

Leadership demands a proactive approach. As an industry leader, Mackenzie strives to be a catalyst of change. With a demonstrated ability to capture Canadian equity and balanced fund market share, the company's enhanced focus on income products and its continued innovation in the foreign equity category will provide an opportunity to continue to provide financial advisers and investors with investment solutions that meet their evolving needs.

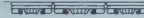


ALEX COLVILLE  FAMILY AND RAINSTORM 1955
NATIONAL GALLERY OF CANADA

A native of Toronto, Colville spent his childhood in Amherst, Nova Scotia. He studied at Mount Allison University in New Brunswick and returned there to teach in 1946. Colville gave up teaching in 1963 to devote himself to painting. His use of tempera captures with precision the most minute details of the everyday, middle-class lives of his subjects, infusing them with nobility and grandeur. In this rendition of a scene at Cape Blomidon, near Wolfville, where he lived, the painter finds inspiration in a picnic interrupted by an approaching storm. In her haste to escape the storm, the mother holds open the door of the car, a vehicle that symbolizes the conquest of space for the painter. Colville magnifies a fleeting moment of rather ordinary everyday life, and captures every idyllic element.

During the postwar, Baby Boom years, families flocked to the suburbs in search of a modern way of life. The automobile, which had become more accessible to the middle class, made it easy to get around and popularized pleasure driving, picnics, seaside and country vacations—special times when children could be close to their mothers. As more women obtained their driving licences by the late 1950s, the automobile came to symbolize freedom more than ever.

PARGESA GROUP



Pargesa is a Europe-based holding company
with interests in five large European companies.

Through Bertelsmann, Pargesa participates in the world's major
media and entertainment markets. Bertelsmann controls RTL Group,
the leading television group in Europe, Random House,
the world's largest book publisher and the BMG music group.

Through Imerys, Pargesa is involved in producing minerals and ceramic components
used in a variety of industrial applications.

Pargesa also has significant investments in Paris-based Total and Suez.
Total is a global petroleum company created through the merger of Total,
Elf and PetroFina. Suez is a leading industrial organization providing
infrastructure and global utility services in electricity, water and waste management.
Lafarge is a world leader in cement and building materials.

Pargesa achieves significant returns through realizations on investments.

16.3%

annual compound return to shareholders over fifteen years

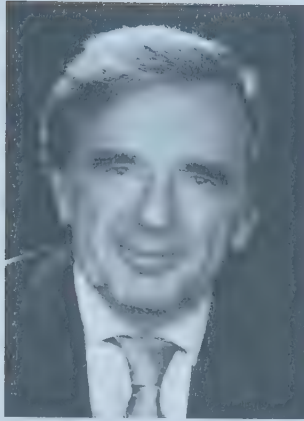
\$8.4 billion
market capitalization

\$1.8 billion
aggregate dividends paid to shareholders over fifteen years



PARGESA GROUP

~~Group Executive Committee~~



AIMERY LANGLOIS-MEURINNE
Managing Director,
Pargesa Holding S.A.

PARJOINTCO N.V.

Power Financial Corporation, through its wholly owned subsidiary Power Financial Europe B.V. and the Frère group of Belgium, each hold a 50 per cent interest in Parjointco N.V., a Netherlands-based company. Parjointco's principal holding is a 54.1 per cent equity interest (61.4 per cent of the voting shares) in Pargesa Holding S.A., the Pargesa group's parent company, which is based in Geneva, Switzerland.

PARGESA'S PORTFOLIO

At December 31, 2005, Pargesa had a majority equity interest of 48.1 per cent (50.0 per cent of the voting shares) in the Belgian holding company Groupe Bruxelles Lambert. Pargesa and GBL had shareholders' equity of \$7.8 billion and \$14.0 billion, respectively, at the 2005 year-end.

Pargesa and GBL together hold a controlling interest in Imerys, a world leader in industrial minerals. GBL also has interests in four leading European companies: Bertelsmann AG (media and entertainment), Total S.A. (oil, gas and chemicals), Suez (energy, water and waste services) and Lafarge (cement and building materials).

The strategy of the Pargesa group is to focus on developing and adding value to the companies in which it holds substantial interests. As at December 31, 2005, the group's five main interests — Bertelsmann, Total, Suez, Imerys and Lafarge — accounted for 98 per cent of Pargesa's adjusted net asset value.

RECENT DEVELOPMENTS

In January 2006, GBL announced that, in accordance with its shareholder agreement with the Mohn family (the controlling shareholder of Bertelsmann), GBL's Board of Directors had decided that it would pursue the possible exercise of its right to require the public listing of shares of Bertelsmann, if the market conditions are favourable, as from the end of May 2006. At the same time, GBL also announced that it had acquired a 6.5 per cent interest in Lafarge, a world leader in the cement and building materials sector. GBL further increased its interest in the company and, as of March 28, 2006, held 8.1 per cent of Lafarge. In February 2006, Suez announced a possible merger with Gaz de France, which would create one of the largest gas groups in the world, with a strong presence in the LNG sector. This transaction is subject to proper approvals and authorizations.

BERTELSMANN

With its head office in Gütersloh, Germany, Bertelsmann is an integrated media and entertainment company. The company generated revenues of €17.9 billion (\$27.0 billion) in 2005. Operating EBIT rose to €1,610 million (\$2,429 million) from €1,429 million (\$2,310 million) the previous year. Operating return on sales rose from 8.4 per cent to 9.0 per cent. It has leading positions in the world's major media and entertainment markets.

Among the key events of the year, Bertelsmann bought a 7.5 per cent equity interest in RTL Group, which brought its total participation to 90.4 per cent; RTL group acquired United Business Media's 35.4 per cent interest in the British TV Channel Five and now holds 100 per cent; RTL Group also acquired a 30 per cent interest in the Russian TV network Ren TV; Gruner + Jahr disposed of its U.S. magazines to focus on markets where it can attain a leading market position; DirectGroup acquired Columbia House, the largest specialized retailer of DVDs in the U.S.; and the French book club France Loisirs enhanced its market position as the country's second-largest book distributor by taking over Privat, France's largest independent bookselling chain.

RTL GROUP

RTL Group is considered to be Europe's leader in television, radio and TV production, with revenues of €5.1 billion (\$7.7 billion) in 2005. RTL Group has holdings in 34 television channels and 34 radio stations in 11 European countries. Based in Luxembourg, it produces more than 300 programs in 40 different countries. RTL Group is one of the world's leading non-U.S. content providers. In 2005, the performance recorded at M6 in France, Antenna 3 in Spain, and Channel Five in the United Kingdom compensated for the effects of difficult market conditions in Germany, where both revenue and results were down. The operating EBIT of RTL Group stands at €756 million (\$1,140 million), compared with €668 million (\$1,080 million) in 2004.

RANDOM HOUSE

Random House, with revenues of €1.8 billion (\$2.7 billion), is considered to be the world's largest English-language publishing house. Random House benefited in 2005 from strong publishing performance in the U.K. and the U.S., including the million-copy success of *French Women Don't Get Fat* by Mireille Guiliano, John Grisham's two-million seller *The Broker* and additional printing of *The Da Vinci Code* by Dan Brown. In 2005, operating EBIT reached €166 million (\$250 million), compared with €140 million (\$226 million) in 2004.

PARGESA HOLDING S.A.

PERCENTAGES DENOTE PARTICIPATING EQUITY INTEREST
AS AT DECEMBER 31, 2005



[1] Pargesa held 50.0 per cent of the voting rights in GBL at December 31, 2005.

DISTRIBUTION OF ADJUSTED NET ASSET VALUE OF PARGESA AT DECEMBER 31, 2005



GRUNER + JAHR

Gruner + Jahr, Europe's largest magazine publisher, generated revenues of €2.6 billion (\$3.9 billion) in 2005. The group publishes over 285 magazines and newspapers in 20 countries, encompassing titles such as *GEO*, *Capital*, *Femme Actuelle*, *Family Circle*, and *Parents*. In 2005, the company benefited from the launch of many new titles and formats in 2004, including the bi-weekly TV guides in France, *Télé 2 Semaines* and *TV Grandes Chaînes*. The group further strengthened its position by taking over the majority of the capital in MotorPresse Stuttgart. The operating EBIT stood at €250 million (\$377 million), compared with €210 million (\$339 million) in 2004.

BMG

In 2005, the Sony BMG joint venture achieved chart successes with artists that included Jennifer Lopez, System of a Down, and Shakira. In the music publishing business, BMG's performance was based on the work of such artists as Coldplay and R. Kelly. In a market environment that continued to be difficult, BMG improved its operating EBIT to €177 million (\$267 million) in 2005 from €162 million (\$262 million) in 2004.

ARVATO

With approximately 60 subsidiaries around the world, Arvato is one of the largest internationally networked media-service providers. The group is composed of the Bertelsmann Services Group, which offers its customers industrial services such as the management of information, data and merchandise flows and service centres, storage media production, digital rights management, and state-of-the-art printers. This division also includes Sonopress, a leading manufacturer of CDs and DVDs; the multimedia-printing operation Topac; and Digital World Services, a leader in Internet digital rights management. Arvato's operating EBIT for 2005 was €341 million (\$515 million), compared with €310 million (\$501 million) recorded the previous year.

DIRECTGROUP BERTELSMANN

DirectGroup Bertelsmann comprises Bertelsmann's direct-to-customer businesses, and combines Bertelsmann's traditional strengths in direct marketing and program expertise with the online distribution of books and music. It is believed to rank first among international book and music clubs with more than 35 million subscribers. In 2005, DirectGroup management continued to focus its attention on improving the profitability and growth of this business segment. The operating EBIT has improved from €32 million (\$52 million) in 2004 to €53 million (\$80 million) in 2005.



ALEX COLVILLE  SWIMMING RACE 1958
NATIONAL GALLERY OF CANADA

Colville's meticulous realism required an incomparable level of technical skill. This explains why he has produced so few paintings. Catching the motion of the divers in mid-air presented him with two major artistic challenges. Photography can be of great help in capturing objects in motion, but it produces a flat visual effect. Colville overcame this difficulty by drawing innumerable preparatory sketches, and was finally able to portray spontaneity in the movement and surfaces. But the study of movement is not enough. The contours of shapes and the gradation of colours, which the eye perceives better than the camera, are picked up by the brightness and transparency of the oil and resin blend, which has the advantage of drying rather quickly.

Women were long discouraged from participating in sports. Nevertheless, that did not stop some women from pursuing great athletic careers. These included Barbara Ann Scott, who became the first Canadian Olympic gold medallist in figure skating in 1948; Marilyn Bell, who swam across Lake Ontario in 1954 and, more recently, Sylvie Bernier, who won the gold medal in the three-metre springboard competition at the 1984 Los Angeles Olympic Games, becoming the first Canadian athlete to take away gold in the event. At the most recent Games, in Turin in 2006, women athletes won 16 of Canada's 24 medals.

TOTAL

Total is an international oil, gas, and petrochemical group that resulted from successive mergers of the Total, PetroFina and Elf Aquitaine groups. Total is based in Paris, France and operates in 130 countries. It is involved in all aspects of the oil and gas industry, from exploration and production to refining and retail distribution. The petrochemical group is considered to be a European or world leader in each of its market segments, which include petrochemicals and plastics, intermediate and performance polymers, and specialty chemicals. In 2005, Total had sales of €143 billion (\$215 billion). Investment expenditures remained substantial and totalled some €11.2 billion (\$16.9 billion). Cash flows from operating activities, before changes in working capital, amounted to €14.7 billion (\$22.2 billion).

In 2005, Total benefited from favourable market conditions in the oil industry. In an environment of continued demand growth, the tension on production capacity, aggravated by the effect of hurricanes in the Gulf of Mexico, raised oil prices and refining margins to high levels. In that context, adjusted net income before non-recurring items was €12.0 billion (\$18.1 billion), up 31 per cent over 2004. A share buy-back program in an amount of €3.5 billion (\$5.3 billion), representing almost 3 per cent of the capital, helped drive net income per share on the above basis to a record €20.33 (\$30.74), an increase of 35 per cent from 2004. Net income was €12.3 billion (\$18.6 billion), up 13 per cent.

In 2005, Total's return on average capital employed was 27 per cent, possibly one of the best in the industry, and return on equity was 35 per cent, versus 33 per cent in 2004.

UPSTREAM SECTOR Total's hydrocarbon production declined 3.7 per cent. Adjusted for the price effect and excluding the impact of the hurricanes, Total's hydrocarbon production remained stable in 2005. Production growth, mainly from Venezuela, Libya, Indonesia, Trinidad and Argentina, was offset by decreases in the North Sea and Syria. Proven reserves were 11.1 billion barrels of oil equivalent. Total believes that these proven reserves represent 12.2 years of production, based on the current production rate. Total states that the 2003–2005 average reserve replacement rate for Total's consolidated subsidiaries was 95 per cent, and the rate for all subsidiaries was 97 per cent.

DOWNSTREAM SECTOR Total is Europe's largest refiner and distributor. In 2005, it refined an average of 2.4 million barrels per day, a 3 per cent decrease. The decrease was essentially due to the impact of the strike at the Normandy refinery and the shutdown of the Port Arthur refinery after hurricane Rita. Capacity utilization decreased to 88 per cent, from 93 per cent in 2004.

PETROCHEMICALS SECTOR In 2005, sales for the petrochemicals segment were €22.3 billion (\$33.6 billion), up 11 per cent. The segment benefited from high petrochemical margins, and specialties continued to perform well. Three areas of activity — vinyl products, industrial chemical products and performance products — have been brought together under common management. This is expected to enable them to become independent by being listed on an exchange in 2006, if market conditions permit and the necessary authorizations are obtained.



PHILIP SURREY  DELMO'S, MONTREAL CIRCA 1967
COLLECTION OF POWER CORPORATION OF CANADA

A native of Calgary, Surrey moved to Montréal in 1937, where he discovered a group of painters advocating a modernist aesthetic that went beyond the regionalism of the landscape artists in vogue at the time. John Lyman was the leader of this group, and the founder of the Contemporary Arts Society of Montréal, which Surrey joined as a founding member in 1939. Trained in Winnipeg, New York and, above all, in Vancouver by Frederick Varley, Surrey learned from his teacher and friend the importance of reflected light, and the techniques necessary to create harmonious transitions between areas of light and shadow. This scene, a view of the interior of the famous Delmo's Restaurant on Notre-Dame Street in Montréal, shows Surrey at the height of his powers.

Caring for the sick, teaching children, doing domestic work in a home or waiting on tables in a restaurant, working as a telephone operator or a secretary—these were the main service occupations that society once reserved for women. Today, women are active in a wide range of professions. In 2004, 37% of all management positions were held by women.

SUEZ

With its head office in Paris, France, Suez is a leading international industrial organization providing private infrastructure and utility services related to energy and the environment. In 2005, the group generated revenues of €41.5 billion (\$62.6 billion), almost 89 per cent of which came from European and North American operations.

In August 2005, Suez launched a public offering of €11.2 billion to purchase the 49.9 per cent of its Belgian subsidiary, Electrabel, that it did not already own. This offer was finalized in December 2005, when Suez announced that it owned 99 per cent of Electrabel. In February 2006, Suez disclosed a possible merger with Gaz de France, which would create one of the largest gas groups in the world, with a strong presence in the LNG sector. This transaction is subject to proper approvals and authorizations.

In 2005, Suez recorded operating results of €3.9 billion (\$5.9 billion), up 4.4 per cent from the previous year. Net income, including capital gains, non-recurring and restructuring costs, was €2.5 billion (\$3.8 billion), up 48 per cent compared with 2004.

IN THE ENERGY SECTOR, Suez generated sales of €30.4 billion (\$45.9 billion). Suez controls 100 per cent of the Belgian company Suez-Tractebel, one of the largest private electric utilities in the world. Through its affiliates, Suez-Tractebel operates gas transportation facilities and provides management and maintenance services for thermal installations, urban heating and cooling systems, and co-generation systems, mainly in Europe and the United States.

IN THE ENVIRONMENTAL SECTOR, Suez is considered the world leader in water-quality improvement and engineering management. Also offering water distribution network and purification services, it has sales of €11.1 billion (\$16.7 billion). Its subsidiary, Degrémont, is the global leader in its field, having built 10,000 plants over the last few years. Degrémont provides engineering services for the design and construction of water treatment plants. Suez is also a major European operator in the area of waste management, and is involved in the collection, sorting, processing, storage and recycling of a wide range of household and industrial waste.

IMERYS

The Imerys group is a world leader in the production and sale of value-added minerals. Imerys posted annual sales of over €3.0 billion (\$4.5 billion) for fiscal 2005. With substantial mineral reserves and sophisticated processing facilities, Imerys produces essential value-added products for a diversified clientele. In 2005, the markets in which Imerys operates remained soft and some non-recurring adverse factors impacted activity levels: a harsh winter, the seven-week strike in the Finnish paper industry and hurricanes in the U.S. during the third quarter. Despite these difficulties, Imerys posted a 6.1 per cent increase in sales compared with 2004. Net income from recurring operations was €287 million (\$433 million), an increase of 10 per cent over 2004. This performance was reached despite substantial increases in the variable costs of production, principally energy.

THE SPECIALTY MINERALS DIVISION, which had annual sales of €815 million (\$1,230 million), produces mineral and ceramic components that are essential in a wide range of industries, including paint, plastics, adhesives, porcelain tableware, sanitaryware and floor tiles. The group is the world's leading producer of high-purity graphite, a product which has many technical applications, including the manufacturing of lithium-ion batteries for mobile phones. Imerys is also considered to be the world's leading producer of raw materials for tableware and sanitaryware.

THE PIGMENTS FOR PAPER DIVISION, which had annual sales of €755 million (\$1,139 million), produces kaolin, ground calcium carbonate (GCC), and precipitated calcium carbonate. Imerys reports it is the only major producer with reserves in all three major high-grade kaolin zones: the United States, the United Kingdom, and Brazil. This division also has a global production and distribution system for GCC and offers the world's widest array of pigments.

THE MATERIALS AND MONOLITHICS DIVISION, which had annual sales of €922 million (\$1,391 million), manufactures and sells roofing and structural products, primarily for the construction and renovation of single-family homes. Imerys is considered France's leading producer of clay roof tiles and clay bricks, and the largest specialized roofing products distributor. It is also the leader in the French market for high-quality natural slate tiles and in the market for high value-added monolithics. Imerys products are sold across Europe, but primarily in France.

THE REFRACTORIES, ABRASIVES & FILTRATION DIVISION had annual sales of €598 million (\$902 million). Imerys is considered to be the world's number one producer of minerals for refractories and abrasives. Refractories, which are raw materials or finished products that resist very high temperatures under harsh chemical and physical conditions, have numerous applications in industrial sectors as varied as steel, casting, power generation, ceramics and electronics. In 2005, the group acquired World Minerals, based in the United States, a producer of minerals used in beverage filtration and in various applications as filler for paints and plastics. World Minerals, with 23 plants located in North America, Latin America, Europe and China, generated revenues of nearly US\$300 million.

LAFARGE

Present in 75 countries, Lafarge is considered a world leader in building materials with top-ranking positions in all four of its business divisions: Cement, Aggregates & Concrete, Roofing and Gypsum. Lafarge had sales of €16 billion (\$24 billion) in 2005, an increase of 10 per cent over last year.

The year 2005 saw continuing sustained growth in Lafarge's activities. In most of its markets, Lafarge was able to absorb the impact of a sharp rise in energy costs through price increases. Current operating earnings grew in all divisions except Roofing, which was affected by a particularly difficult context on the German construction market.

Lafarge pursued and stepped up its capacity investments and developed new partnerships in emerging markets. It also consolidated and modernized its capacities in Western Europe and in North America.

CEMENT

To cope with a steep rise in energy prices, the Cement division turned to greater use of alternative fuels to hold in check the impact on costs, and used price increases where market conditions allowed.

Sales in the Cement division increased 12.3 per cent to €8.3 billion (\$12.5 billion). Sales volumes rose primarily in the emerging countries, whose contribution to current operating income rose to 47 per cent, up from 44 per cent in 2004.

AGGREGATES & CONCRETE

Sales in the Aggregates & Concrete division were also in large measure determined by the impact of higher energy costs. Infrastructure costs in Western Europe and in North America did not stimulate the aggregates activity, where sales stagnated, while concrete registered a positive evolution in terms of volume, with contrasting situations on the different national building markets. Sales in the Aggregates & Concrete division increased 13.3 per cent to €5.4 billion (\$8.1 billion), reflecting acquisitions in the United States and Western Europe.

ROOFING

The Roofing division, in spite of sharp growth in turnover in the United States, remained sluggish in Europe due to the continuing weakness of the German construction market. The decline in sales volume in the German market strained prices and led to shrinking use of production capacity, causing operating losses. Sales of the division increased 1.4 per cent to €1.5 billion (\$2.3 billion).

GYPSUM

The Gypsum business profited from the dynamism of the residential construction market in North America, where the price environment was extremely favourable. In Western Europe, volumes and prices showed good levels, except in Germany, where the market remained morose. Therefore, sales in this division increased 9.3 per cent to €1.5 billion (\$2.3 billion).



JEAN PAUL LEMIEUX  THREE GENERATIONS OF WOMEN 1969
PRIVATE COLLECTION

The minimalist pictorial approach that characterizes the work of the painter's "mature" period appears in stark contrast to the Edwardian-style dress of the people in this painting. Recalling his childhood, Lemieux creates a dichotomy between the modernity of the work and his memory of a bygone era. He could have observed these three generations of women in his own family around 1910 or perhaps a bit later, during a holiday with his family at Kent Manor near Québec City, a summer resort for the local well-to-do. Beginning in 1956, Lemieux abandoned traditional painting formats in favour of canvases that were very long or very high. This enlarged his subjects and figures and conferred on them an aura of grandeur.

Within the family, it is most often the women who pass on traditions—from grandmother to mother to daughter. Women ensure the continuation of the family unit through, among other things, organizing birthday, holiday and other celebrations that enable family members to get together.

POWER FINANCIAL CORPORATION

REVIEW OF FINANCIAL PERFORMANCE



MARCH 29, 2006

This Annual Report is designed to provide interested shareholders and others with selected information concerning Power Financial Corporation. For further information concerning the Corporation, shareholders and other interested persons should consult the Corporation's disclosure documents such as its Annual Information Form and Management's Discussion and Analysis of Operating Results. Copies of the Corporation's continuous disclosure documents can be obtained at www.sedar.com, on the Corporation's Web site at www.powerfinancial.com, or from the office of the Secretary at the addresses shown at the end of this report.

FORWARD-LOOKING STATEMENTS › Certain statements, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's or its subsidiaries' and affiliate's current expectations. These statements may include without limitation, statements regarding the operations, business, financial condition, priorities, ongoing objectives, strategies and outlook of Power Financial or its subsidiaries and affiliate for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including the perception of historical trends, current conditions and expected future developments as well as other factors that are believed to be appropriate in the circumstances.

Actual results could differ materially from those projected and should not be relied upon as a prediction of future events. By its nature, this information is subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond the Corporation's or its subsidiaries' and affiliate's control, affect the operations, performance and results of the Corporation, its subsidiaries and affiliate, and their business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or

unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition, including uncertainties associated with critical accounting assumptions and estimates, the effect of applying future accounting changes, business competition, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's or its subsidiaries' or affiliate's ability to complete strategic transactions and integrate acquisitions and the Corporation's or its subsidiaries' and affiliate's success in anticipating and managing the foregoing risks.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation's or its subsidiaries' and affiliate's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to put undue reliance on forward-looking statements.

Other than as specifically required by law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results otherwise.

Additional information about the risks and uncertainties of the Corporation's business is provided in its disclosure materials, including its most recent Annual Information Form, filed with the securities regulatory authorities in Canada, available at www.sedar.com.

REVIEW OF FINANCIAL PERFORMANCE

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS UNLESS OTHERWISE NOTED.

OVERVIEW

Power Financial is a holding company with substantial interests in the financial services industry through its controlling interests in Great-West Lifeco Inc. (Lifeco) and IGM Financial Inc. (IGM). Power Financial also holds an interest in Pargesa Holding S.A. (Pargesa) together with the Frère group of Belgium.

LIFECO

Lifeco has operations in Canada, the United States and Europe through its subsidiaries The Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), and Great-West Life & Annuity Insurance Company (GWL&A).

In Canada, Great-West and its operating subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial and Great-West financial security advisers, and through a multi-channel network of brokers, advisers and financial institutions.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products and reinsurance. The Europe segment is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Republic of Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland. Reinsurance products are provided through Canada Life, London Reinsurance Group Inc. (LRG) and their subsidiaries.

In the United States, GWL&A is a leader in providing self-funded employee health plans for businesses and in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of health care and financial products and services marketed through brokers, consultants and group representatives, and through partnerships with other financial institutions.

On September 24, 2004, the shareholders of Lifeco approved a subdivision of the common shares of Lifeco on a two-for-one basis. The subdivision was effective October 6, 2004. Per share figures related to Lifeco for periods prior to the effective date of subdivision have been adjusted to reflect the effect of the subdivision.

At the end of December 2005, Power Financial and IGM held 70.6% and 4.2%, respectively, of Lifeco's common shares, representing approximately 65% of the voting rights attached to all outstanding Lifeco voting shares.

IGM

IGM is one of Canada's premier personal financial services companies and Canada's largest manager and distributor of mutual funds and other managed asset products. Its activities are carried out principally through its operating subsidiaries, Investors Group Inc. (Investors Group), Mackenzie Financial Corporation (Mackenzie), and Investment Planning Counsel Inc. (Investment Planning Counsel), which offer their own distinctive products and services through separate advice channels encompassing, at December 31, 2005, over 34,000 consultants and independent financial advisers.

Investors Group, through a network of more than 3,600 consultants nationwide (at December 31, 2005), offers comprehensive financial planning advice and services to its clients, including investment, retirement, estate and tax planning. Investors Group offers investment management, securities, insurance, banking and mortgage products to its clients through integrated financial planning.

Mackenzie is a multi-faceted investment management and financial services company, which was founded in 1967. Mackenzie provides investment advisory and related services through relationships with more than 30,000 independent financial advisers across Canada. Mackenzie also provides management services to institutional accounts and provides trust and administrative services.

Investment Planning Counsel is an integrated financial service company focused on providing Canadians with high-quality financial products, services, and advice, while helping them achieve their financial objectives. Investment Planning Counsel is a leading choice for independent financial planners dedicated to delivering quality, client-focused advice. Investment Planning Counsel is the fifth largest independent distributor of financial products, services and advice in Canada.

At the end of December 2005, Power Financial and Great-West held 55.9% and 3.5%, respectively, of IGM's common shares.

PARGESA

Power Financial Europe B.V., a wholly owned subsidiary of Power Financial, and the Frère group each hold a 50% interest in Parjointco N.V. (Parjointco), which at the end of December 2005 held a 54.1% equity interest in Pargesa, representing 61.4% of the voting rights of that company.

The Pargesa group has substantial holdings in major companies based in Europe. As of December 31, 2005, its portfolio was composed of interests in various sectors including media and entertainment through Bertelsmann AG (Bertelsmann); oil, gas and chemicals through Total S.A. (Total); energy, water and waste services through

REVIEW OF FINANCIAL PERFORMANCE

Suez; specialty minerals through Imerys; and cement and building materials through Lafarge, in which the Pargesa group made its first investments during the second part of 2005. These investments are held by Pargesa directly or through its affiliated Belgium holding company, Groupe Bruxelles Lambert (GBL).

In January 2006, GBL announced that in accordance with its shareholder agreement with the Mohn family (the controlling shareholder of Bertelsmann), GBL's Board of Directors had decided that it would pursue the possible exercise of its right to require the public listing of shares of Bertelsmann, if the market conditions are favourable, as from the end of May 2006.

OUTSTANDING NUMBER OF COMMON SHARES

As of March 29, 2006, there were 704,813,680 common shares of the Corporation outstanding, unchanged from December 31, 2005 and December 31, 2004.

A subdivision of the common shares of Power Financial on a two-for-one basis became effective on July 23, 2004. As a result per share figures related to periods prior to the effective subdivision date have been adjusted accordingly.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The Consolidated Financial Statements of the Corporation have been prepared in accordance with generally accepted accounting principles

in Canada (Canadian GAAP) and are presented in Canadian dollars. (Please refer to Note 1 of the Consolidated Financial Statements.)

INCLUSION OF PARGESA'S RESULTS

The investment in Pargesa is accounted for by Power Financial under the equity method. As described above, the Pargesa portfolio consists primarily of investments in Imerys, Bertelsmann, Total, Suez and Lafarge, which are held by Pargesa directly or through GBL. In its statement of earnings, GBL only accounts for the dividends received from Total and Suez (Lafarge did not contribute to earnings in 2005 as the investments were made by GBL after the annual dividend was paid).

For the periods ending on or before September 30, 2005, Pargesa, GBL, Imerys and Bertelsmann were subject to disclosure and accounting standards which varied according to their jurisdiction and applicable law. Financial statements of GBL, Bertelsmann, and, starting in the first quarter of 2005, Imerys, were prepared in accordance with International Financial Reporting Standards (IFRS), while Pargesa's financial statements were prepared in accordance with Swiss generally accepted accounting principles. Therefore, in preparing its financial statements for the corresponding periods, Power Financial used

accounting information received from Pargesa, which was intended to be the same in all material respects as that which would have been produced under IFRS standards. This information was further adjusted by Power Financial including, in particular, the elimination of the effect of amortization of goodwill from Pargesa's results, in order to conform to Canadian GAAP. As previously announced, Pargesa adopted IFRS at the end of 2005 and, as a result, reported its full-year 2005 financial statements under IFRS and restated its 2004 financial statements accordingly. As a result of adopting IFRS, Pargesa no longer amortizes goodwill.

The contribution to Power Financial's earnings is based on the economic (flow-through) presentation of results used by Pargesa. Pursuant to this presentation, "operating income" and "non-operating income" are presented separately by Pargesa. Power Financial's share of non-operating income of Pargesa, after adjustments or reclassifications if necessary, is included as part of Other income in the Corporation's financial statements.

RESULTS OF POWER FINANCIAL CORPORATION

This section is an overview of the results of Power Financial. Consistent with past practice, the contributions from Lifeco and IGM, which represent most of the earnings of Power Financial, are accounted for using the equity method in order to facilitate the discussion and

analysis. This presentation has no impact on Power Financial's net earnings and is intended to assist readers in their analysis of the results of the Corporation. See also Note 25 to Power Financial's Consolidated Financial Statements.

REVIEW OF FINANCIAL PERFORMANCE

PRESENTATION OF RESULTS — NON-GAAP FINANCIAL MEASURES

In analysing the financial results of the Corporation and consistent with the presentation in previous years, net earnings are subdivided into the following components:

- › operating earnings; and
- › other sources of earnings, including what is referred to in this section as “other income”.

Management has used these performance measures for many years in its presentation and analysis of the financial performance of Power Financial, and believes that they provide additional meaningful information to readers in their analysis of the results of the Corporation. “Operating earnings” excludes the after-tax impact of any item that management considers to be of a non-recurring nature or that could make the period-over-period comparison of results from operations less meaningful. The contribution to operating earnings from Lifeco and IGM is based on adjusted earnings (which is a non-GAAP operating measure) as presented by these companies.

Operating earnings and operating earnings per share are non-GAAP financial measures that do not have a standard meaning

and may not be comparable to similar measures used by other entities. Management has provided below a reconciliation of these non-GAAP financial measures to the GAAP measures presented in the Consolidated Financial Statements (see “Reconciliation with Financial Statements”).

CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

Following amendment of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3860, Financial Instruments — Disclosure and Presentation, which became effective for fiscal years beginning on or after November 1, 2004, “soft-retractable” preferred shares, which were previously classified in Shareholders’ equity, are now classified as Liabilities on the Consolidated Balance Sheets, and dividends related to such securities must be classified as financing charges on the Statements of Earnings. This new requirement affects the soft-retractable preferred shares Series C and J issued by Power Financial. However, this change has no impact on the calculation of basic earnings per share or net income attributable to common shareholders. Comparative figures for 2004 have been restated accordingly.

EARNINGS SUMMARY — CONDENSED SUPPLEMENTARY STATEMENTS OF EARNINGS

	TWELVE MONTHS ENDED DECEMBER 31				THREE MONTHS ENDED DECEMBER 31			
	2005		2004		2005		2004	
	TOTAL ⁽¹⁾	PER SHARE	TOTAL ⁽¹⁾	PER SHARE	TOTAL ⁽¹⁾	PER SHARE	TOTAL ⁽¹⁾	PER SHARE
Contribution from subsidiaries and affiliate to operating earnings	1,774		1,619		469		427	
Results from corporate activities	(65)		(66)		(15)		(17)	
Sub-total	1,709		1,553		454		410	
Dividends on preferred shares, Series C and J	(15)		(15)		(4)		(4)	
Operating earnings	1,694	2.33	1,538	2.11	450	0.61	406	0.56
Other income [charges]	(2)	—	5	0.01			(6)	(0.01)
Share of specific charge recorded by Lifeco	(31)	(0.05)			(9)	(0.01)		
Net earnings	1,661	2.28	1,543	2.12	441	0.60	400	0.55

[1] Before dividends on perpetual preferred shares issued by the Corporation, which amounted to \$17 million and \$13 million in the fourth quarters of 2005 and 2004, respectively, and to \$55 million and \$51 million in the twelve-month periods ended December 31, 2005 and 2004, respectively.

OPERATING EARNINGS

Operating earnings of Power Financial were \$1,694 million or \$2.33 per share in 2005, compared with \$1,538 million or \$2.11 per share in 2004. This represents a 10.1% increase on a per share basis.

For the three-month period ended December 31, 2005, operating earnings were \$450 million, or \$0.61 per share, compared with \$406 million or \$0.56 per share in the fourth quarter of 2004, which represents an increase of 10.1% on a per share basis.

SHARE OF OPERATING EARNINGS FROM SUBSIDIARIES AND AFFILIATE

Power Financial's share of operating earnings from its subsidiaries and affiliate increased by 9.6% in 2005, from \$1,619 million in 2004 to

\$1,774 million in 2005. On a quarter-over-quarter basis, the increase was 9.8% (from \$427 million in 2004 to \$469 million in 2005).

Both subsidiaries, as well as Pargesa, reported growth in their adjusted or operating earnings in 2005; however, expressed in Canadian dollars, the contribution from the European affiliate decreased slightly in the twelve-month period compared with 2004 due to the strengthening of the Canadian dollar against the Swiss franc.

Lifeco's contribution to operating earnings increased by \$119 million in 2005, to \$1,269 million. For the fourth quarter of 2005, the contribution from Lifeco to operating earnings increased by \$30 million to \$329 million.

REVIEW OF FINANCIAL PERFORMANCE

Lifeco reported adjusted earnings attributable to common shareholders (before the impact of the charges described below) of \$1,802 million or \$2.022 per share in 2005, compared with \$1,630 million or \$1.827 per share in 2004. This represents an 11% increase on a per share basis. For the quarter ended December 31, 2005, adjusted earnings attributable to common shareholders were \$469 million or \$0.526 per share, compared with \$423 million or \$0.475 per share in 2004, an increase of 11% on a per share basis.

Lifeco's adjusted earnings exclude the after-tax impact of the following charges:

- [i] restructuring costs related to the acquisition of Canada Life, which amounted to \$17 million after tax (\$0.019 per share) in the twelve-month and nil in the three-month periods ended December 31, 2005, respectively. Corresponding figures in 2004 were \$30 million (\$0.033 per share) and \$14 million (\$0.016 per share), respectively; and
- [ii] a reinsurance provision of \$43 million after tax (\$0.048 per Lifeco share) and \$13 million (\$0.014 per share), for the twelve-month and three-month periods ended December 31, 2005, respectively, for expected losses arising from hurricane damage in 2005.

Including the impact of these charges, Lifeco's net earnings were \$1,742 million (\$1.955 per share) in 2005, compared with \$1,600 million (\$1.794 per share) in 2004. For the quarter ended December 31, net earnings including charges were \$456 million (\$0.512 per share) in 2005, and \$409 million (\$0.459 per share) in 2004.

The contribution from IGM to Power Financial's operating earnings was \$384 million for the twelve-month period of 2005, an increase of \$41 million over the same period in 2004. For the three-month periods ended December 31, the contribution was \$101 million in 2005, an increase of \$11 million over the same period in 2004. The figures for 2004 exclude the impact of items noted below (Power Financial's share of such item was included in Other income).

IGM reported earnings attributable to common shareholders of \$682.4 million or \$2.56 per share on a diluted basis, and \$177.2 million or \$0.66 per share, for the twelve-month and three-month periods ended December 31, 2005, respectively. Adjusted earnings in 2004, excluding items mentioned below, were \$615.6 million or \$2.31 per share for the twelve-month period, and \$161.3 million or \$0.61 per share for the quarter. On a per share basis, this represents increases of 10.8% and 8.2%, respectively.

IGM's adjusted earnings in 2004 figures presented above exclude a charge to earnings recorded in the fourth quarter of \$19.2 million after tax for unitholder compensation. Including the impact of this charge, net earnings in 2004 were \$596.4 million or \$2.24 per share, and \$142.1 million or \$0.53 per share for the twelve month-period and three-month periods ended December 31, 2004, respectively.

The contribution from Parjointco to Power Financial's operating earnings was \$121 million in 2005, compared with \$126 million in

2004. For the three-month periods ended December 31, the contribution was \$39 million in 2005, compared with \$38 million in 2004. The decrease in the contribution from Parjointco in 2005 is primarily due to the strengthening of the Canadian dollar against the Swiss franc. Pargesa, which now reports under IFRS, reported operating earnings of SF509 million in 2005 compared with SF476 million in 2004, despite lower dividend income compared with the previous year. The contribution from Suez and Total to Pargesa's operating earnings is comprised of its share of the dividends received from these companies. Dividends from Suez are received once a year, during the second quarter. Total, which formerly paid its annual dividend during the second quarter, changed its distribution policy in the fall of 2004 and now pays its dividend in two instalments: an interim dividend is paid in the fourth quarter of the current fiscal year, and the balance is paid in the second quarter of the following year. As a result, the dividend paid in the second quarter of 2005 (Pargesa's share — SF55 million before withholding tax) represents the final payment of the dividend related to fiscal 2004, while in 2004 the dividend paid in the second quarter (Pargesa's share — SF86 million before withholding tax) represented the full dividend related to fiscal 2003. It is not expected that the situation will reoccur in following years. In addition, although GBL received from Bertelsmann in 2005, as well as in 2004, a cash dividend of €120 million, from an accounting point of view, Pargesa's consolidated earnings include only a portion of this dividend. This portion represented for Pargesa SF30 million in 2005, compared with SF50 million in 2004.

RESULTS FROM CORPORATE ACTIVITIES

Results from corporate activities, before dividends on preferred shares Series C and J, were charges of \$65 million and \$15 million for the twelve-month and three-month periods ended December 31, 2005, respectively. Corresponding figures in 2004 were charges of \$66 million and \$17 million, respectively.

Increases in operating expenses in 2005 have been offset by higher income from investment.

Dividends on preferred shares, Series C and J, which are now classified as financing charges, amounted to \$15 million and \$4 million, respectively, in the twelve-month and three-month periods ending December 31, 2005 and 2004.

OTHER INCOME [CHARGES]

Other income in 2005 was a charge of \$2 million, compared with \$5 million or \$0.01 per share in 2004. For the fourth quarter, Other income was nil in 2005, compared with a charge of \$6 million or \$0.01 per share in 2004.

Other income in 2005 includes Power Financial's share of restructuring costs recorded by Lifeco, as well as its share of non-operating earnings related to Pargesa.

Other income in 2004 included, in addition to the share of Lifeco's restructuring costs and non-operating earnings of Pargesa, a dilution gain of \$9 million recorded in the second quarter of 2004 as a result of

REVIEW OF FINANCIAL PERFORMANCE

the issuance by IGM of common shares to third parties in connection with the Investment Planning Counsel acquisition, as well as Power Financial's share of a \$19.2 million after-tax charge recorded in the fourth quarter by IGM.

SHARE OF SPECIFIC CHARGE RECORDED BY LIFEKO

As noted above, Lifeco recorded a reinsurance provision of \$43 million after tax (\$0.048 per Lifeco share) and \$13 million (\$0.014 per share), for the twelve-month and three-month periods ended December 31, 2005, respectively, for expected losses arising from hurricane damage in 2005.

The Corporation's share of this provision was \$31 million or \$0.05 per share, and \$9 million or \$0.01 per share, respectively, for the twelve-month and three-month periods ended December 31, 2005.

NET EARNINGS

Net earnings, after taking into account Other income and the share of the specific charge recorded by Lifeco, were \$1,661 million or \$2.28 per share in 2005, compared with \$1,543 million or \$2.12 per share in 2004.

For the fourth quarter ended December 31, net earnings were \$441 million or \$0.60 per share in 2005, compared with \$400 million or \$0.55 per share in 2004.

RECONCILIATION WITH FINANCIAL STATEMENTS

The following tables show a reconciliation of the non-GAAP financial measures discussed above with the financial statements of Power Financial.

RECONCILIATION WITH FINANCIAL STATEMENTS

TWELVE MONTHS ENDED DECEMBER 31			2005	2004		
	OPERATING EARNINGS	OTHER ITEMS, NET	AS PER FINANCIAL STATEMENTS	OPERATING EARNINGS	OTHER ITEMS, NET	AS PER FINANCIAL STATEMENTS
Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests ^[1] ^[2]	3,388	(53)	3,335	3,102		3,102
Share of earnings of affiliate	121		121	126		126
Earnings before other income, income taxes and non-controlling interests	3,509	(53)	3,456	3,228		3,228
Other income [charges]		(11)	(11)		(35)	(35)
Earnings before income taxes and non-controlling interests	3,509	(64)	3,445	3,228	(35)	3,193
Income taxes	904	(10)	894	856	(24)	832
Non-controlling interests ^[1]	911	(21)	890	834	(16)	818
Net earnings	1,694	(33)	1,661	1,538	5	1,543
Per share	2.33	(0.05)	2.28	2.11	0.01	2.12
THREE MONTHS ENDED DECEMBER 31			2005	2004		
	OPERATING EARNINGS	OTHER ITEMS, NET	AS PER FINANCIAL STATEMENTS	OPERATING EARNINGS	OTHER ITEMS, NET	AS PER FINANCIAL STATEMENTS
Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests ^[1] ^[2]	894	(20)	874	875		875
Share of earnings of affiliate	39		39	38		38
Earnings before other income, income taxes and non-controlling interests	933	(20)	913	913		913
Other income [charges]					(31)	(31)
Earnings before income taxes and non-controlling interests	933	(20)	913	913	(31)	882
Income taxes	241	(2)	239	236	(14)	222
Non-controlling interests ^[1]	242	(9)	233	271	(11)	260
Net earnings	450	(9)	441	406	(6)	400
Per share	0.61	(0.01)	0.60	0.56	(0.01)	0.55

[1] 2004 figures have been restated to conform to new CICA Handbook Section 3860 such that Earnings before share of earnings of affiliate, other income, income taxes and non-controlling interests includes dividends on soft-retractable preferred shares issued by the Corporation, as well as dividends on soft-retractable preferred shares and remuneration on capital trust units issued by subsidiaries.

[2] Other items represents the specific charge recorded by Lifeco for expected losses arising from hurricane damage in 2005.

REVIEW OF FINANCIAL PERFORMANCE

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONDENSED SUPPLEMENTARY BALANCE SHEET

DECEMBER 31	2005	2004	2005	2004
	CONSOLIDATED BASIS		EQUITY BASIS ⁽¹⁾	
Assets				
Cash and cash equivalents	4,642	3,623	613	286
Investments at equity	1,501	1,647	9,807	9,370
Other investments	86,836	81,443	—	5
Other assets	17,917	17,466	73	83
Total	110,896	104,179	10,493	9,744
Liabilities				
Policy liabilities				
Actuarial liabilities	71,263	65,822		
Other	3,787	4,273		
Other liabilities	14,483	13,887	395	360
Preferred shares of the Corporation	300	300	300	300
Preferred shares of subsidiaries	1,356	1,366		
Capital trust securities and debentures	648	651		
Debentures and other borrowings	3,377	3,554	400	400
	95,214	89,853	1,095	1,060
Non-controlling interests	6,284	5,642		
Shareholders' equity				
Perpetual preferred shares	1,200	950	1,200	950
Common shareholders' equity	8,198	7,734	8,198	7,734
Total	110,896	104,179	10,493	9,744
Consolidated assets and assets under administration	280,170	256,485		

[1] Condensed supplementary balance sheet of the Corporation with Lifeco and IGM accounted for using the equity method.

CONSOLIDATED BASIS

The consolidated balance sheets include Lifeco's and IGM's assets and liabilities.

Total assets increased to \$110,896 million at December 31, 2005, from \$104,179 million at December 31, 2004. The increase reflects in particular the acquisition by Lifeco of approximately \$4.4 billion of payout annuity business from Phoenix and London Assurance Company Limited. This transaction also resulted in a corresponding increase in policy liabilities.

As previously disclosed in interim MD&As of the Corporation in 2005, capital trust units and soft-retractable preferred shares issued by the subsidiaries, which were previously presented as non-controlling interests, as well as preferred shares Series C and J issued by Power Financial, which are soft-retractable and were previously included in Shareholders' equity, are now included in Liabilities. This results from new CICA Handbook Section 3860, Financial Instruments — Disclosure and Presentation, which became effective for fiscal years beginning on or after November 1, 2004, and CICA Handbook Accounting Guideline 15 (AcG-15) on Consolidation of Variable Interest Entities,

which also became effective for fiscal years beginning on or after November 1, 2004. Figures at December 31, 2004 have been restated or reclassified accordingly. The value of trust debentures and soft-retractable preferred shares issued by subsidiaries amounted to \$648 million and \$1,356 million, respectively, at December 31, 2005 (December 31, 2004 — \$651 million and \$1,366 million). The value of preferred shares, Series C and J, issued by Power Financial is \$300 million, unchanged from the end of 2004.

The increase in non-controlling interests includes in particular the impact of the issuance, in 2005, of \$300 million of perpetual preferred shares by Lifeco.

The increase in perpetual preferred shares in 2005 reflects the issuance by the Corporation in October 2005 of \$250 million Series K preferred shares.

Assets under administration include segregated funds of Lifeco and IGM's mutual fund assets at market values. The market value of Lifeco's segregated funds was \$75 billion at the end of 2005, compared with \$69 billion a year earlier. IGM's mutual fund assets at market value, including those of Mackenzie and IPC, were \$94 billion at the end of 2005, compared with \$83 billion at the end of 2004.

REVIEW OF FINANCIAL PERFORMANCE

EQUITY BASIS

Under the equity basis presentation, Lifeco and IGM are accounted for using the equity method. This presentation has no impact on Power Financial's shareholders' equity, but is intended to assist readers in isolating the contribution of Power Financial, as the parent company, to consolidated assets and liabilities.

Cash and cash equivalents held by Power Financial amounted to \$613 million at the end of 2005, compared with \$286 million at the end of 2004. The increase reflects in particular the impact of the issuance, in October 2005, of perpetual preferred shares, Series K, for gross proceeds of \$250 million. Cash balance at the end of 2005 does not include, however, the impact of the repayment by Power Financial of \$150 million principal amount of 7.65% debentures which matured on January 5, 2006.

In managing its own cash and cash equivalents, Power Financial may hold cash balances, invest in short-term paper or equivalents, or in deposits denominated in foreign currencies and thus be exposed to fluctuations in exchange rates. In order to protect against such fluctuations, Power Financial from time to time enters into currency-hedging transactions with highly rated financial institutions. At December 31, 2005, 99% of the \$613 million of cash and cash equivalents were denominated in Canadian dollars or in foreign currencies combined with currency hedges.

Investments at equity, which represent the carrying value of Power Financial's investments in Lifeco, IGM and Parjointco, increased by \$437 million in 2005 to \$9,807 million, compared with \$9,370 million at the end of 2004. This increase is mainly due to:

- › Power Financial's share of net earnings from its subsidiaries and affiliate, net of dividends received, for a net amount of \$987 million; and
- › a net (negative) \$552 million variation in foreign currency translation adjustments, related principally to the Corporation's indirect investment in Lifeco's foreign operations and Pargesa.

Debentures issued by the Corporation amounted to \$400 million at year-end 2005, unchanged from 2004. This includes the \$250 million 6.90% debentures due March 11, 2033 and the \$150 million 7.65% debentures which were repaid on January 5, 2006. As previously disclosed, at the time of the issuance of these debentures, Power Financial entered into a cross-currency swap, thus economically converting them into SF127.5 million 4.43% debentures. The cross-currency swap was unwound in October 2005 and Power Financial received a net cash settlement of \$34 million.

For a discussion of Shareholders' equity, please refer to the specific section below.

CASH FLOWS

CONSOLIDATED CASH FLOWS		
FOR THE YEARS ENDED DECEMBER 31	2005	2004
Cash flow from operating activities	4,528	3,403
Cash flow from financing activities	(694)	(1,468)
Cash flow from investing activities	(2,529)	(1,911)
Effect of changes in exchange rates on cash and cash equivalents	(286)	(47)
[Decrease] increase in cash and cash equivalents	1,019	(23)
Cash and cash equivalents, beginning of year	3,623	3,646
Cash and cash equivalents, end of year	4,642	3,623

On a consolidated basis, cash and cash equivalents increased by \$1,019 million in 2005, compared with a decrease of \$23 million in 2004.

Operating activities produced a net inflow of \$4,528 million in 2005, compared with a net inflow of \$3,403 million in 2004.

- › In 2005, Lifeco's cash flow provided by operations increased \$949 million to \$3,951 million. This increase in cash flow from operations is mainly due to an overall increase in the level of business activity, together with the impact of reinsurance activities which had the effect of reducing cash flows from operations in 2004 and increasing cash flows from operations in 2005. In 2005, the \$3,951 million of operating cash flows were used by Lifeco to acquire \$2,485 million of additional investment assets supporting Lifeco's policy liabilities.

- › Operating activities of IGM, before payment of commissions, generated \$942 million in 2005, as compared to \$770 million in 2004. Cash commissions paid were \$337 million in 2005 compared with \$306 million in 2004 and reflect the increase in mutual fund sales over 2004 levels.

Cash flows from financing activities, which include dividends paid on common and preferred shares, resulted in a net outflow of \$694 million in 2005, compared with a net outflow of \$1,468 million in 2004.

Financing activities during the year ended December 31, 2005 compared to the same period in 2004 related primarily to:

- › Dividends paid on a consolidated basis in 2005 of \$996 million compared with \$825 million in 2004.

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- › The issuance by Power Financial of \$250 million of perpetual preferred shares. Lifeco also issued preferred shares of \$300 million in 2005 as well as in 2004.
- › During the year, long-term debt of \$150 million was repaid by subsidiaries, compared with \$858 million in 2004.
- › During the year, subsidiaries of the Corporation repurchased for cancellation common shares in the amount of \$80 million, compared with \$156 million in 2004.

Cash flow from investing activities resulted in a net outflow of \$2,529 million in 2005, compared with a net outflow of \$1,911 million in 2004. Most of this investing activity is related to Lifeco's acquisition of investment assets to support policy liabilities, as mentioned above. Consolidated cash flows include in particular Lifeco's and IGM's operations.

CORPORATE CASH FLOWS

Power Financial is a holding company. As such, corporate cash flows from operations, before payment of dividends, are principally made up of dividends received from its subsidiaries and affiliate and income from investments, less operating expenses, financing charges and taxes. The ability of Lifeco and IGM, which are also holding companies,

to meet their obligations generally and pay dividends depends in particular upon receipt of sufficient funds from their subsidiaries. The payment of interest and dividends by Lifeco's principal subsidiaries is subject to restrictions set out in relevant insurance and corporate laws and regulations, which require that solvency and capital standards be maintained. As well, the capitalization of Lifeco's principal subsidiaries take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to those companies. The payment of dividends by IGM's principal subsidiaries is subject to corporate laws and regulations which require that solvency standards be maintained. In addition, certain subsidiaries of IGM must also comply with capital or liquidity requirements established by regulatory authorities.

Dividends paid by Lifeco and IGM in 2005 on their common shares amounted to \$0.810 and \$1.335 per share in aggregate, respectively, compared with \$0.685 and \$1.150 per share, respectively, in 2004.

Pargesa pays its dividend annually. The dividend paid in May 2005 amounted to SF2.00 per bearer share, compared with SF1.84 in 2004. Both figures are after the effect of the fifty-for-one subdivision of Pargesa's shares, which became effective July 1, 2005.

FOR THE YEARS ENDED DECEMBER 31 [per share]	2005		2004
	CURRENT ANNUALIZED DIVIDEND ^[1]	DIVIDEND	DIVIDEND
Great-West Lifeco Inc. [C\$] ^[2]	0.895	0.810	0.685
IGM Financial Inc. [C\$]	1.4375	1.335	1.150
Pargesa Holding S.A. — bearer share [SF] ^[3]	2.15	2.00	1.84

[1] Lifeco and IGM: based on quarterly dividends declared in February 2006. Pargesa dividend to be approved at its May 2006 Annual General Meeting.
[2] Dividends for 2004 have been adjusted to give effect to the two-for-one subdivision of Lifeco's shares.
[3] Adjusted to give effect to the fifty-for-one subdivision of Pargesa's shares.

In 2005, dividends declared on Power Financial's common shares were \$0.870 per share, compared with \$0.730 in 2004 (these figures

are on a post-subdivision basis). This represents an increase of 19% on a per share basis.

SHAREHOLDERS' EQUITY

Common shareholders' equity was \$8,198 million at December 31, 2005, compared with \$7,734 million at the end of 2004. The increase of \$464 million is mainly due to:

- › a \$982 million increase in retained earnings; and
- › a net \$535 million negative variation in foreign currency translation adjustments, relating primarily to the Corporation's indirect investments in Lifeco's foreign operations and Pargesa, as explained above.

No common shares were issued in 2005 pursuant to the Employee Stock Option Plan, compared with 7,980,000 common shares issued in 2004 which resulted in an increase in stated capital of \$37 million.

Book value per share of the Corporation was \$11.63 at the end of 2005, compared with \$10.97 at the end of 2004.

The Corporation had seven series of perpetual preferred shares outstanding at the end of 2005, with a stated value of \$1,200 million, compared with six series for a stated value of \$950 million the end of 2004. On October 7, 2005, the Corporation completed the issuance of 10,000,000 non-cumulative First Preferred Shares, Series K, carrying a 4.95% annual dividend, for gross proceeds of \$250 million. The Series K First Preferred Shares are redeemable in whole or in part at the option of the Corporation on or after October 31, 2010.

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RATINGS OF THE CORPORATION

As at December 31, 2005, ratings of certain of the Corporation's securities were as follows:

	DOMINION BOND RATING SERVICE	STANDARD & POOR'S RATINGS SERVICES ^[1]
Senior debentures	A [high]	A+
Preferred shares cumulative	Pfd 2 [high]	Canadian scale P1 [low] Global scale A-
non-cumulative	Pfd 2 [high] n	Canadian scale P1 [low] Global scale A-

[1] On September 27, 2005, Standard & Poor's Ratings Services affirmed the ratings of the Corporation and at the same time the outlook has been revised to Stable from Negative.

CHANGES IN ACCOUNTING POLICIES

CONSOLIDATION OF VARIABLE INTEREST ENTITIES › Effective January 1, 2005, the Corporation adopted CICA Handbook Accounting Guideline 15 (AcG-15). As a result, Lifeco no longer consolidates Great-West Life Capital Trust and Canada Life Capital Trust but recognizes the related debentures on the consolidated balance sheet (refer to Note 12 to the Consolidated Financial Statements). This change in accounting policy had no impact on net earnings available to common shareholders or basic earnings per common share.

FINANCIAL INSTRUMENTS — DISCLOSURE AND PRESENTATION › Effective for fiscal years beginning on or after November 1, 2004, CICA 3860, Financial Instruments — Disclosure and Presentation was amended to require obligations that an entity must or can settle by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than equity. On January 1, 2005, the Corporation adopted the amended standard retroactively with restatement of prior periods. Some of the Corporation's (\$300 million) and subsidiaries' (\$1,366 million) preferred shares were reclassified accordingly and the related preferred dividends were reclassified to

financing charges in the Consolidated Statements of Earnings. The change does not have any impact on earnings per share or net earnings available to common shareholders since preferred share dividends were previously deducted from net earnings in determining net earnings available to common shareholders.

INVESTMENT COMPANIES › In January 2004, the CICA issued Accounting Guideline No. 18 — Investment Companies, which became effective January 1, 2005. Under this Guideline, investment companies are required to account for all their investments at fair value, including investments that would otherwise be consolidated or accounted for using the equity method. The Guideline sets out the criteria for determining whether a company is an investment company and also provides guidance on the circumstances in which the parent company of, or equity method investor in, an investment company should account for the investment company's investments at fair value. The adoption of the new Guideline did not have a material impact on the Consolidated Financial Statements of the Corporation in 2005.

SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management of the Corporation, as well as management of the subsidiaries, to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. A summary of major critical accounting policies and related judgments underlying the Consolidated Financial Statements is presented below. In applying these policies, management of the Corporation and management of the subsidiaries make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance, the mutual fund and other financial services industries; others are specific to the Corporation's and its subsidiaries' businesses and operations.

The Corporation's general accounting policies are described in detail in Note 1 to the Consolidated Financial Statements. Accounting estimates are used in particular with respect to the following items:

ACTUARIAL LIABILITIES › Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with Lifeco. The Appointed Actuaries of Lifeco's subsidiary companies are responsible for determining the amount of the actuarial liabilities to make appropriate provision for the obligations of the companies to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method. This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgement. In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity,

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investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness. Additional details regarding these adjustments and estimations can be found in Note 10 of the Consolidated Financial Statements.

INCOME TAXES › As for any group conducting its businesses in multiple jurisdictions, the Corporation and its Canadian subsidiaries are subject to a regime of specialized rules prescribed under the Income Tax Act (Canada) for purposes of determining the amount of the companies' income that will be subject to tax in Canada. Accordingly, the determination of the companies' provision for income taxes involves the application of these complex rules in respect of which alternative interpretations may arise. Management of the companies recognize that interpretations they may make in connection with tax filings may ultimately differ from those made by the tax authorities. Tax planning may allow the Corporation to record lower income taxes in the current year and, as well, income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of the provisions.

Substantial future income tax assets are recognized in the Consolidated Financial Statements of the Corporation. The recognition of future tax assets depends on the assumption that future earnings will be

sufficient to realize the deferred benefit. The amount of the future tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities.

If management's interpretation of tax legislation differs from that of local tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods.

EMPLOYEE FUTURE BENEFITS › Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for the determination of accrued benefit obligations. These estimates are discussed in Note 19 to the Consolidated Financial Statements.

GOODWILL AND INTANGIBLE ASSETS › The impairment tests on goodwill and intangible assets involve the use of estimates and assumptions appropriate in the circumstances. As at December 31, 2005, goodwill totalled \$8,203 million and intangible assets totalled \$2,353 million. (See Note 7 to the Consolidated Financial Statements.)

DEFERRED SELLING COMMISSIONS › Commissions paid by IGM on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. IGM regularly reviews the carrying value of the deferred selling commissions with respect to any events or circumstances that indicate impairment or that an adjustment to the amortization period is necessary.

FUTURE ACCOUNTING CHANGES

EARNINGS PER SHARE › CICA Handbook Section 3500, Earnings Per Share, is expected to be amended in 2006 to require inclusion of the dilutive effects of convertible securities in the calculation of diluted earnings per share, regardless of the issuer's intention to settle the securities in cash or in common shares. If effective, this new requirement will have the effect of including the dilutive effects of non-perpetual preferred shares in the calculation of diluted earnings per share.

FINANCIAL INSTRUMENTS › Three new standards, which address the recognition and measurement of financial instruments and the application of hedge accounting, will be effective for the Corporation on January 1, 2007:

› **Financial Instruments** › Recognition and Measurement: This new standard will require all financial assets and liabilities to be carried at fair value in the Consolidated Balance Sheets, except for loans and receivables, and non-trading financial liabilities, which will be carried at amortized cost. Realized and unrealized gains and losses on financial instruments that are held "for trading" will be recorded in the Consolidated Statements of Earnings, while unrealized gains and losses on financial instruments that are held as "available for sale" will be recorded in a Statement of Other Comprehensive Income until realized. All derivatives will be recorded at fair value in the Consolidated Balance Sheets.

› **Hedges** › With respect to "fair value hedges", change in fair value of the hedging derivative will be offset in the Consolidated Statements of Income against the change in the fair value of the hedged item. With respect to "cash flow hedges", change in fair value of the hedging derivative will be recorded in a Statement of Other Comprehensive Income until the asset or liability being hedged affects the Consolidated Statements of Income, at which time the related change in fair value of the derivative will also be recorded in the Consolidated Statements of Income. Any hedge ineffectiveness will be recorded in the Consolidated Statements of Income.

› **Comprehensive Income** › Unrealized gains and losses on financial instruments that will be held as "available for sale", changes in the fair value of cash flow hedging instruments, as well as unrealized foreign currency translation amounts, will be recorded in a Statement of Other Comprehensive Income (which will be part of Shareholders' equity) until recognized in the Consolidated Statements of Income.

The Corporation is currently evaluating the impact of these new requirements on the Consolidated Financial Statements.

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OFF-BALANCE SHEET ARRANGEMENTS

The following should be read in conjunction with the Notes to the Consolidated Financial Statements.

SECURITIZATIONS

IGM's liquidity management practices include the periodic transfers of mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. IGM retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. IGM also transfers NHA-insured loans through the issuance of mortgage-backed securities. During the course of 2005, IGM entered into securitization transactions through its mortgage banking operations with proceeds of \$251 million (2004 — \$207 million), recognizing a net gain of \$4 million on these transactions (2004 — \$2 million). Securitized loans serviced at December 31, 2005 totalled \$559 million, compared with \$593 million in 2004. The fair value of IGM's retained interest was \$15 million at December 31, 2005 and \$20 million in 2004. (See also Note 5 to the Consolidated Financial Statements.)

DERIVATIVE FINANCIAL INSTRUMENTS

In the course of their activities, the Corporation and its subsidiaries use derivative financial instruments. When using such derivatives, they only act as limited end-users and not as market-makers in such derivatives.

The Corporation and its subsidiaries have each established operating policies and processes, which in particular aim at:

- › prohibiting the use of derivative instruments for speculative purposes;
- › documenting transactions and ensuring their consistency with risk management policies;
- › demonstrating the effectiveness of the hedging relationships, and
- › monitoring the hedging relationship.

The use of derivatives is monitored and reviewed on a regular basis by senior management of the companies.

As at December 31, 2005, the notional amount of outstanding derivative contracts entered into by the Corporation and its subsidiaries was \$8,337 million (2004 — \$8,313 million), with a maximum credit risk and total fair value of \$744 million and \$651 million, respectively, (2004 — \$477 million and \$291 million, respectively). Maximum credit risk represents the current market value of the instruments which were in a gain position only; fair value represents the net amount at which an instrument could be bought or sold in a current transaction between willing parties.

See Notes 1 and 22 to the Consolidated Financial Statements for more information on the type of derivative financial instruments used by the Corporation and its subsidiaries.

There were no major changes to the Corporation's and its subsidiaries' policies and procedures with respect to the use of derivative instruments in 2005.

COMMITMENTS

LETTERS OF CREDIT › In the normal course of its Reinsurance business, Lifeco provides letters of credit (LOC) to other parties or beneficiaries. A beneficiary will typically hold a LOC as collateral in order to secure statutory credit for reserves ceded to or amounts due from Lifeco. A LOC may be drawn upon demand. If an amount is drawn on a LOC by a beneficiary, the bank issuing the LOC will make a payment to the beneficiary for the amount drawn, and Lifeco will become obligated to repay this amount to the bank.

Lifeco, through certain of its operating subsidiaries, has provided LOC to both external and internal parties, which are described in Note 24 to the Consolidated Financial Statements.

GUARANTEES › The Corporation has adopted AcG-14, Disclosure of Guarantees, effective January 1, 2003, which identifies disclosure requirements for certain guarantees or groups of similar guarantees, even when the likelihood of the guarantor having to make any payment is remote. In addition, in the normal course of their businesses, the Corporation and its subsidiaries may enter into certain agreements, the nature of which precludes the possibility of making a reasonable estimate of the maximum potential amount the guarantor could be required to pay third parties as some of these agreements do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined.

In particular, the syndicated letters of credit provided by Lifeco to external parties (see Note 24 to the Consolidated Financial Statements) meet the definition of guarantees.

CROWN LIFE ACQUISITION AGREEMENT › As part of the 1999 acquisition by CLFC of the majority of Crown Life Insurance Company's (Crown Life) insurance operations, CLFC has the option, or may be obligated, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, subject to certain conditions, in which case CLFC would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

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TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, Power Financial has access to facilities and properties held by its parent company, Power Corporation of Canada (Power Corporation). Power Financial also

shares administrative services and human resources with Power Corporation. Power Financial bears its share of the associated costs.

CONTRACTUAL OBLIGATIONS

The following table provides a summary of future consolidated contractual obligations.

	TOTAL	PAYMENTS DUE BY PERIOD			
		LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	MORE THAN 5 YEARS
Debentures and other borrowings ^[1]	3,377	151	2	2	3,222
Operating leases ^[2]	599	134	221	137	107
Contractual commitments ^[3]	292	290	2		
Purchase obligations ^[4]	27	18	9		
Total	4,295	593	234	139	3,329
Letters of credit — See note 5 below					

[1] Please refer to Note 11 to the Consolidated Financial Statements for further information.

[2] Includes office space and certain equipment used in the normal course of business. Lease payments are charged to operations in the period of use.

[3] Represents commitments by Lifeco. These contractual commitments are essentially for investment transactions made in the normal course of operations in accordance with its policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.

[4] Purchase obligations primarily represent commitments to acquire goods and services, generally related to information services.

[5] Letters of credit are written commitments provided by a bank. The Europe operation of Lifeco is from time to time an applicant for letters of credit provided mainly as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. Please refer to Note 24 of the Consolidated Financial Statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The following table presents the book value and the fair value of on-balance sheet financial instruments (please refer to Note 21 to the Consolidated Financial Statements), as well as the fair value of derivative financial instruments (please refer to Note 22 to the Consolidated Financial Statements).

AS AT DECEMBER 31	2005		2004	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	4,642	4,642	3,623	3,623
Investments [excluding real estate]	84,992	88,870	79,794	82,919
Other financial assets	4,949	4,949	4,426	4,426
Total financial assets	94,583	98,461	87,843	90,968
Liabilities				
Policy liabilities	75,050	80,320	70,095	73,568
Deposits and certificates	693	694	711	717
Debentures and other borrowings	3,377	3,888	3,554	3,858
Other financial liabilities	9,755	9,755	9,649	9,649
Total financial liabilities	88,875	94,657	84,009	87,792
Derivative financial instruments		651		291

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SELECTED ANNUAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31	2005	2004	2003
Revenues	26,136	23,922	15,369
Operating earnings before other items ^[1]			
in millions of dollars	1,694	1,538	1,248
per share — basic ^[2]	2.33	2.11	1.72
Net earnings			
in millions of dollars	1,661	1,543	2,010
per share — basic ^[2]	2.28	2.12	2.81
per share — diluted ^[2]	2.27	2.11	2.78
Consolidated assets	110,896	104,179	105,436
Consolidated assets and assets under administration ^[3]	280,170	256,485	241,809
Consolidated long-term liabilities			
Debtentures and other borrowings	3,377	3,554	4,198
Shareholders' equity	9,398	8,684	7,837
Book value per share ^[2]	11.63	10.97	9.88
Number of common shares outstanding [millions]	704.8	704.8	696.8
Dividends per share [declared]			
Common shares ^[2]	0.8700	0.7300	0.6025
First preferred shares ^[4]			
Series A	0.7691	0.7013	0.8208
Series C	1.3000	1.3000	1.3000
Series D	1.3750	1.3750	1.3750
Series E	1.3125	1.3125	1.3125
Series F	1.4750	1.4750	1.4750
Series H	1.4375	1.4375	1.2836
Series I ^[5]	1.5000	1.5000	1.3305
Series J ^[5]	1.1750	1.1750	1.0422
Series K ^[6]	0.39329		

[1] Operating earnings and operating earnings per share are non-GAAP financial measures.

[2] After giving effect to the two-for-one subdivision which became effective on July 23, 2004.

[3] Assets under administration include segregated funds of Lifeco and IGM's mutual fund assets, at market value. The market value of Lifeco's segregated funds was \$75 billion in 2005, \$69 billion in 2004 and \$62 billion in 2003. IGM's mutual fund assets were \$94 billion in 2005, \$83 billion in 2004 and \$75 billion in 2003.

[4] The Series B First Preferred Shares were redeemed in May 2003.

[5] Issued in March 2003.

[6] Issued in October 2005.

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SUMMARY OF QUARTERLY RESULTS

In this table, all per share amounts are presented on a post-subdivision basis.

	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	7,106	5,748	6,295	6,987	6,269	5,456	6,398	5,799
Operating earnings ^{[1][2][3][4]}	450	414	449	381	406	381	413	338
per share — basic	0.61	0.57	0.62	0.52	0.56	0.52	0.57	0.46
Other income and share of specific charge recorded by Lifeco ^{[2][3]}	(9)	(24)	2	(2)	(6)	(4)	18	(3)
per share — basic	(0.01)	(0.03)	0.00	(0.00)	(0.01)	(0.00)	0.02	(0.00)
Net earnings	441	390	451	379	400	377	431	335
per share — basic	0.60	0.54	0.62	0.52	0.55	0.52	0.59	0.46
per share — diluted	0.60	0.53	0.62	0.52	0.55	0.52	0.59	0.46

[1] The contribution from Pargesa to operating earnings includes Pargesa's share of the dividends paid by Total and Suez, as well as Pargesa's share of the portion of the dividend received by GBL from Bertelsmann which is considered a preferred dividend [Pargesa's share: SF30 million in 2005 and SF50 million in 2004] and thus recorded as income. These dividends contribute significantly to Pargesa's operating results. Dividends from Suez and Bertelsmann are received once a year, during the second quarter. Total, which also used to pay its annual dividend in one instalment during the second quarter, started in the fall of 2004 to pay its dividend in two instalments. In 2004, Pargesa's contribution to operating earnings of Power Financial includes, in the second quarter of 2004, its share of the annual dividend paid by Total related to 2003, which amounted to €4.70 per share, as well as the first interim dividend, related to fiscal 2004, which amounted to €2.40 per share. In 2005, it includes in the second quarter the final portion [€3.00 per share] of the 2004 dividend while in the fourth quarter of 2005, it includes the first installment [€3.00 per share] of the dividend related to 2005.

[2] Pargesa releases its six-month results only in September and any difference between actual results compared to estimates used by Power Financial when releasing its results for the periods ended June 30 are recorded by Power Financial in the third quarter. The impact of such differences on operating earnings was \$3 million [\$0.00 per share] and \$4 million [\$0.01 per share] in the third quarters of 2005 and 2004, respectively. The impact on third quarter non-operating earnings was negative \$1 million [\$0.00 per share] and negative \$1 million [\$0.00 per share] in 2005 and 2004, respectively.

[3] For a definition of this non-GAAP financial measure, please refer to Presentation of Results — Non-GAAP Financial Measures.

[4] As explained earlier, dividends on soft-retractable preferred shares are now classified as financing charges in the statement of earnings. Figures for 2004 have been restated accordingly. This change has no effect on income attributable to common shareholders or basic earnings per share.

POWER FINANCIAL CORPORATION

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CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31 [in millions of dollars]	2005	2004 [restated — Note 1]
ASSETS		
Cash and cash equivalents	4,642	3,623
Investments [Note 4]		
Shares	3,930	3,284
Bonds	59,298	54,960
Mortgages and other loans	15,118	15,051
Loans to policyholders	6,646	6,499
Real estate	1,844	1,649
	86,836	81,443
Funds held by ceding insurers	2,556	2,337
Investment in affiliate, at equity [Note 6]	1,501	1,647
Goodwill and intangible assets [Note 7]	10,556	10,593
Future income taxes [Note 8]	460	553
Other assets [Note 9]	4,345	3,983
	110,896	104,179
LIABILITIES		
Policy liabilities		
Actuarial liabilities [Note 10]	71,263	65,822
Other	3,787	4,273
Deposits and certificates	693	711
Funds held under reinsurance contracts [Note 17]	4,325	4,108
Debentures and other borrowings [Note 11]	3,377	3,554
Preferred shares of the Corporation [Note 15]	300	300
Preferred shares of subsidiaries [Note 1]	1,356	1,366
Capital trust securities and debentures [Note 12]	648	651
Future income taxes [Note 8]	830	818
Other liabilities [Note 13]	8,635	8,250
	95,214	89,853
Non-controlling interests [Note 14]	6,284	5,642
SHAREHOLDERS' EQUITY		
Stated capital [Note 15]		
Perpetual preferred shares	1,200	950
Common shares	593	593
Contributed surplus	38	21
Retained earnings	8,249	7,267
Foreign currency translation adjustments	(682)	(147)
	9,398	8,684
	110,896	104,179

Approved by the Board of Directors



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31 [in millions of dollars, except per share amounts]	2005	2004 [restated — Note 1]
REVENUES		
Premium income	16,048	14,202
Net investment income	5,527	5,509
Fee income	4,561	4,211
	26,136	23,922
EXPENSES		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	17,435	15,490
Commissions	1,973	1,880
Operating expenses	3,063	3,096
Financing charges [Note 11]	330	354
	22,801	20,820
	3,335	3,102
Share of earnings of affiliate [Note 6]	121	126
Other income [charges], net [Note 18]	(11)	(35)
Earnings before income taxes and non-controlling interests	3,445	3,193
Income taxes [Note 8]	894	832
Non-controlling interests [Note 14]	890	818
Net earnings	1,661	1,543
Earnings per common share [Note 20]		
Basic	2.28	2.12
Diluted	2.27	2.11

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31 [in millions of dollars]	2005	2004 [restated — Note 1]
Retained earnings, beginning of year	7,267	6,278
Add		
Net earnings	1,661	1,543
Deduct		
Dividends		
Perpetual preferred shares	55	51
Common shares	613	514
Other, including share issue costs of \$6 million in 2005	11	(11)
	679	554
Retained earnings, end of year	8,249	7,267

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31 [in millions of dollars]	2005	2004 [restated — Note 1]
OPERATING ACTIVITIES		
Net earnings	1,661	1,543
Non-cash charges [credits]		
Increase in policy liabilities	2,725	685
Increase in funds withheld by ceding insurers	(219)	1,805
Increase in funds held under reinsurance contracts	(23)	(548)
Amortization and depreciation	99	108
Future income taxes	152	213
Non-controlling interests	890	818
Other	(129)	(789)
Change in non-cash working capital items	(628)	(432)
Cash from operating activities	4,528	3,403
FINANCING ACTIVITIES		
Dividends paid		
By subsidiaries to non-controlling interests	(353)	(289)
Perpetual preferred shares	(51)	(51)
Common shares	(592)	(485)
	(996)	(825)
Issue of common shares	—	37
Issue of perpetual preferred shares	250	—
Issue of common shares by subsidiaries	29	29
Repurchase of common shares by subsidiaries	(80)	(156)
Issue of preferred shares by a subsidiary	300	300
Repurchase of preferred shares by subsidiaries	(10)	(130)
Issue of debentures and other borrowings	—	210
Repayment of debentures and other borrowings	(150)	(858)
Other	(37)	(75)
	(694)	(1,468)
INVESTMENT ACTIVITIES		
Bond sales and maturities	36,671	35,867
Mortgage loan repayments	2,045	2,650
Sale of shares	1,605	1,355
Real estate sales	200	150
Proceeds from securitizations	251	207
Change in loans to policyholders	(272)	(47)
Change in repurchase agreements	224	195
Reinsurance transactions	—	(430)
Acquisition of Investment Planning Counsel [Note 2]	(1)	(63)
Investment in subsidiaries	22	—
Investment in bonds	(37,939)	(37,640)
Investment in mortgage loans	(2,639)	(2,422)
Investment in shares	(2,095)	(1,524)
Investment in real estate	(588)	(197)
Other	(13)	(12)
	(2,529)	(1,911)
Effect of changes in exchange rates on cash and cash equivalents	(286)	(47)
Increase [decrease] in cash and cash equivalents	1,019	(23)
Cash and cash equivalents, beginning of year	3,623	3,646
Cash and cash equivalents, end of year	4,642	3,623
SUPPLEMENTAL CASH FLOW INFORMATION		
Income taxes paid	681	773
Interest paid on debentures and other borrowings	367	380

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ALL TABULAR AMOUNTS ARE IN MILLIONS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Corporation, its subsidiaries and its affiliate.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in those statements and accompanying notes. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results may differ from such estimates.

The principal subsidiaries of the Corporation are: (a) Great-West Lifeco Inc. (Lifeco) (direct interest of 70.6%), which holds 100% of the common shares of Great-West Life & Annuity Insurance Company (GWL&A) and 100% of the common shares of The Great-West Life Assurance Company (Great-West), which in turn holds 100% of the common shares of Canada Life Financial Corporation (CLFC), which in turn owns 100% of The Canada Life Assurance Company (Canada Life), and 100% of the common shares of London Insurance Group Inc. (LIG), which in turn holds 100% of London Life Insurance Company (London Life) and (b) IGM Financial Inc. (IGM), (direct interest of 55.9%), which holds 100% of the common shares of Investors Group Inc. (Investors Group) and of Mackenzie Financial Corporation (Mackenzie), and 74.7% of the common shares of Investment Planning Counsel. IGM holds 4.2% of the common shares of Lifeco, and Great-West holds 3.5% of the common shares of IGM. The Corporation accounts for its investment in its affiliate, Parjointco N.V., using the equity method.

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

Effective January 1, 2005, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Accounting Guideline 15 on Consolidation of Variable Interest Entities. As a result, Lifeco no longer consolidates Great-West Life Capital Trust (GWLCT) and Canada Life Capital Trust (CLCT) but recognizes the related debentures on the Consolidated Balance Sheets (refer to Note 12). This change in accounting policy had no impact on net earnings available to common shareholders or basic earnings per common share.

REVENUE RECOGNITION

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Corporation's premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income is recognized when earned and primarily includes fees earned from the management of segregated fund assets, fees earned on the administration of administrative services only (ASO) Group health contracts, and fees earned from management services.

Management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Administration fees are also recognized on an accrual basis when the service is performed. Distribution revenues are recognized on a trade date basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities.

INVESTMENTS

Investments, other than those held by Lifeco, are accounted for as follows: investments in shares are carried at cost. Where there has been a loss in value that is other than a temporary decline, a write-down is made to recognize the loss. Bonds, mortgages and other loans are valued at amortized cost plus accrued interest less allowances for losses. Real estate investments are valued at cost less allowances for losses.

Investments held by Lifeco are accounted for as follows:

- › Investments in shares are carried at cost plus a moving average market value adjustment of \$293 million (\$277 million in 2004). The carrying value is adjusted towards market value at a rate of 5% per quarter. Net realized gains and losses are included in deferred net realized gains and are deferred and amortized to earnings at a rate of 5% per quarter on a declining balance basis.
- › Investments in bonds and mortgage loans are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in deferred net realized gains and are deferred and amortized over the period to maturity of the security sold.
- › Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of \$144 million (\$154 million in 2004). The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in deferred net realized gains and are deferred and amortized to earnings at a rate of 3% per quarter on a declining balance basis.

Market values for publicly traded bonds are determined using quoted market prices. Market values for bonds that are not actively traded and for mortgages are determined by discounting expected future cash flows related to the securities at market interest rates. Market values for public shares are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for shares for which there is no active market are determined by management. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by independent qualified appraisers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

SECURITIZATIONS

IGM periodically transfers mortgages and personal loans through sales to commercial paper conduits that in turn issue securities to investors. IGM retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. IGM also transfers NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are accounted for as sales, provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the Consolidated Balance Sheets and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets transferred and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of IGM's retained interests, quoted market prices are used if available. However, since quotes are generally not available for retained interests, the estimated fair value is based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are reviewed quarterly for impairment. IGM continues to service the loans transferred. As a result, a servicing liability is recognized and amortized over the expected term of the transferred loans as servicing fees.

For all transfers of loans, gains and losses, as well as servicing fee revenues are reported in Net investment income in the Consolidated Statements of Earnings. The retained interests in the securitized loans are recorded in Other assets, and the servicing liability is recorded in Other liabilities on the Consolidated Balance Sheets.

DEFERRED SELLING COMMISSIONS

Commissions paid by IGM on the sale of certain mutual funds are deferred and amortized against related fee income over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over the term of the deposit with a maximum amortization period of five years.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Corporation. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Corporation. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. The Corporation tests goodwill and indefinite life intangible assets for impairment on an annual basis by reviewing the fair value of the related businesses and the intangible assets. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

STOCK-BASED COMPENSATION PLANS

Effective January 1, 2004, CICA 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees (Note 16). On January 1, 2004, the Corporation adopted the amended standard retroactively without restatement of prior periods for all stock-based compensation and payments to employees since 2002.

The fair value of stock options is determined on each grant date. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in Contributed surplus. When the Corporation's stock options are exercised, the proceeds, together with the amount recorded in Contributed surplus, are added to Stated capital.

REPURCHASE AGREEMENTS

Lifeco enters into repurchase agreements with third-party broker-dealers in which Lifeco sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Corporation and its subsidiaries in the management of interest rate, foreign exchange and equity market exposures. The Corporation's policy is not to use derivative financial instruments for speculative purposes.

The Corporation documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to anticipated future transactions. The Corporation also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The accounting policies used for derivative financial instruments held for hedging purposes correspond to those of the underlying hedged position. In the event a designated hedged item is sold, extinguished, matures or ceases to be effective prior to the termination of the related derivative instruments, or it is no longer probable that the sale of the hedged item will occur at the date originally anticipated, any realized or unrealized gains or losses on such derivative instruments are recognized in earnings.

Interest rate swaps and options are used to hedge interest rate risk related to asset and liability management and mortgage banking operations. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Net investment income is adjusted to reflect the exchange of payments under the interest rate swaps.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

Written call options are used with interest rate swaps to effectively convert convertible, fixed rate bonds to non-convertible variable rate securities as part of the Corporation's overall assets/liability matching program. The written call option hedges the Corporation's exposure to the convertibility feature on the bonds. Any premiums received are recognized in net investment income over the life of the options. Gains and losses realized upon exercise of the options are amortized into income over the remaining term of the underlying securities.

Put options are purchased to protect against significant decreases in equity markets. Premiums paid are amortized to net investment income over the life of the options. Gains and losses realized upon exercise of the options are recognized in net investment income.

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with actuarial liabilities. Under these swaps, principal amounts and fixed and floating interest payments may be exchanged in different currencies. The carrying value on the balance sheet is adjusted to reflect the amount of the currency swapped and interest income is adjusted to reflect the interest receivable and interest payable under the swaps.

The Corporation also enters into certain foreign exchange forward contracts to hedge certain product liabilities and to hedge a portion of the translation of its foreign revenues as well as a portion of both operating results and net investment in its foreign operations. The realized and unrealized gains and losses on contracts for product liabilities are included in Net investment income, offsetting the respective realized and unrealized gains and losses on the underlying product liabilities and a corresponding market value adjustment in the amounts paid or credited to policyholders. The realized gains and losses on contracts related to revenues are recognized in Net investment income and 2005 gains, net of tax, were \$67 million (\$111 million in 2004). The gains and losses on contracts related to net investment in foreign operations are included in Foreign currency translation adjustments in the shareholders' equity section of the Consolidated Balance Sheets. Hedge effectiveness is reviewed quarterly through critical terms matching and correlation testing.

Equity index swaps and futures are used to hedge certain product liabilities and are marked to market with realized and unrealized gains and losses included in Net investment income, offsetting the respective realized and unrealized gains and losses on the underlying product liabilities and a corresponding market value adjustment in the amounts paid or credited to policyholders. Equity index swaps

are also used as substitutes for cash instruments and are marked to market with realized and unrealized gains and losses included in Net investment income.

In addition, equity index swaps are used to hedge the market risk associated with certain fee income. Realized gains and losses are recognized in Fee income. Hedge effectiveness is reviewed quarterly through correlation testing.

Lifeco uses credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio. Unrealized gains and losses are deferred on the balance sheet and are recognized in Net investment income in the period in which the underlying investment is recognized.

Lifeco manages its exposure to market risk on its securities by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security. The Corporation designates these contracts as hedges of the future sale of specified securities. Any unrealized gains and losses on the forward sales and options are accounted for on the deferral basis where gains and losses, including any premiums paid or received, are recognized in Net investment income on a basis consistent with the future sale of the related securities.

Effective January 1, 2004, the Corporation adopted the recommendations of CICA Accounting Guideline 13 — Hedging Relationships (AcG-13) on a prospective basis. AcG-13 specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation, and effectiveness of hedges and the discontinuance of hedge accounting. The Corporation reassessed its hedging relationships as at January 1, 2004 and determined that its interest rate swaps on mortgage banking activities did not qualify for hedge accounting under AcG-13. The impact on the Consolidated Financial Statements was not material.

Derivatives that do not qualify for hedge accounting are carried at fair value on the Consolidated Balance Sheets, and changes in fair value are recorded in Net investment income in the Consolidated Statements of Earnings. Non-qualifying derivatives continue to be utilized on a basis consistent with the risk management policies of the Corporation and are monitored by the Corporation for effectiveness as economic hedges even if the specific hedge accounting requirements of AcG-13 are not met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

FINANCIAL INSTRUMENTS — DISCLOSURE AND PRESENTATION

Effective for fiscal years beginning on or after November 1, 2004, CICA 3860, Financial Instruments — Disclosure and Presentation was amended to require obligations that an entity must or can settle by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than equity. On January 1, 2005, the Corporation adopted the amended standard retroactively with restatement of prior periods. Some of the Corporation's (\$300 million) preferred shares were reclassified from Shareholders' equity and some of the subsidiaries' (\$1,366 million) preferred shares were reclassified from Non-controlling interests to Liabilities and the associated preferred dividends were reclassified to Financing charges in the Consolidated Statements of Earnings. The change does not have any impact on earnings per share or net earnings available to common shareholders since preferred share dividends were previously deducted from net earnings in determining net earnings available to common shareholders.

FOREIGN CURRENCY TRANSLATION

All assets and liabilities denominated in foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. The Corporation follows the current rate method of foreign currency translation for its net investments in self-sustaining foreign operations. All income and expenses are translated at average rates prevailing during the year. Exchange gains and losses are included in earnings, except those related to self-sustaining operations and financing related thereto, which are included in Foreign currency translation adjustments in the shareholders' equity section of the Consolidated Balance Sheets.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Corporation maintains defined benefit pension plans as well as defined contribution pension plans for certain of its employees and agents. The plans provide pension based on length of service and final average earnings. The benefit obligation is actuarially determined and accrued using the projected benefit method prorated on service. Pension charge or credit consists of the aggregate of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on the accrued benefit obligation less expected returns on plan assets, which are valued at market value. For the most part, actuarial gains or losses in excess of the greater of 10% of the beginning-of-year plan assets or accrued benefit obligation are amortized over the expected average remaining service life of employees.

The Corporation also has unfunded supplementary pension plans for certain executives. Pension expense related to current services is charged to earnings in the period during which the services are rendered.

In addition, the Corporation provides certain post-retirement health care and life insurance benefits to eligible retirees, agents and their dependants. The cost of the benefits is actuarially determined and accrued using the projected benefit method prorated on service. The current cost of post-retirement health and life benefits is charged to earnings in the period during which the services are rendered.

LOANS TO POLICYHOLDERS

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies.

FUNDS HELD BY CEDING INSURERS/ FUNDS HELD UNDER REINSURANCE CONTRACTS

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. Lifeco records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

INCOME TAXES

The Corporation follows the liability method in accounting for income taxes, whereby future income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

EARNINGS PER SHARE

Basic earnings per share is determined by dividing Net earnings available to common shareholders by the average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share, except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Corporation, as determined by the treasury stock method.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. ACQUISITIONS

ACQUISITION OF BUSINESS

During 2005, Canada Life, through its wholly owned United Kingdom subsidiary, Canada Life Limited, acquired the assets and liabilities associated with the in-force annuity in payment business of Phoenix and London Assurance Limited, part of the Resolution Life Group which is based in the United Kingdom. The transaction resulted in an increase in invested assets and a corresponding increase in policyholder liabilities of \$4.4 billion on the Consolidated Balance Sheets.

ACQUISITION OF INVESTMENT PLANNING COUNSEL

On May 10, 2004, IGM acquired 74.7% of the outstanding common shares of Investment Planning Counsel, a Canadian financial services

company. The results of its operations have been included in earnings since that date.

The aggregate purchase price was \$100 million, consisting of \$76 million of cash including transaction costs, and common shares valued at \$24 million. The value of the 734,796 common shares issued by IGM was determined based on the weighted-average market price of IGM's shares over the two-day period before and after the terms of the acquisition were agreed to and announced.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Fair value of assets acquired	
Cash and cash equivalents	12
Deferred selling commissions	8
Future income taxes	3
Other assets	27
Management contracts	17
Distribution contracts	24
	91
Less fair value of liabilities assumed	
Deposits	21
Other liabilities	50
Long-term debt	23
	94
Fair value of net liabilities assumed	(3)
Goodwill	103
Total purchase consideration	100

Included in Other liabilities are accruals for contract termination costs of \$27 million which were paid during the second quarter of 2004, and other restructuring costs of \$6 million related to the acquisition.

NOTE 3. RESTRUCTURING COSTS

The plan to restructure and integrate the operations of CLFC with Lifeco's wholly owned subsidiaries Great-West, London Life and GWL&A was completed at the end of December 2005 at a total cost of \$446 million. Restructuring costs related to the acquisition of CLFC incurred for the year ended December 31, 2005 were \$101 million (\$220 million for the year ended December 31, 2004). Of this amount

\$22 million (\$44 million in 2004) was charged to earnings and \$79 million (\$176 million in 2004) was charged against the amount accrued as part of the purchase equation of CLFC. These restructuring costs are related to the elimination of duplicate systems, exiting and consolidating operations and compensation costs.

NOTE 4. INVESTMENTS

	2005		2004	
	CARRYING VALUE	ESTIMATED MARKET VALUE	CARRYING VALUE	ESTIMATED MARKET VALUE
Shares	3,930	4,516	3,284	3,759
Bonds	59,298	61,918	54,960	57,012
Mortgages and other loans	15,118	15,790	15,051	15,649
Loans to policyholders	6,646	6,646	6,499	6,499
Real estate	1,844	2,129	1,649	1,855
	86,836	90,999	81,443	84,774

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. INVESTMENTS [CONTINUED]

TERM TO MATURITY AND INTEREST RATE RANGE OF BONDS AND MORTGAGES AND OTHER LOANS

[BEFORE ALLOWANCE FOR CREDIT LOSSES]

	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL	EFFECTIVE INTEREST RATE RANGES %
2005					
Bonds	5,270	16,942	37,174	59,386	1.0-16.8
Mortgages and other loans	639	5,511	9,007	15,157	3.0-13.5
2004					
Bonds	5,017	12,750	37,331	55,098	1.0-16.8
Mortgages and other loans	451	5,258	9,411	15,120	3.0-13.8

The Corporation maintains an allowance for credit losses which is considered adequate by management to absorb all credit-related losses in its portfolio.

CHANGES IN THE ALLOWANCE FOR CREDIT LOSSES

	2005	2004
Balance, beginning of year	208	213
Provisions for credit losses	7	(8)
Recoveries of prior write-offs	(75)	(20)
Write-offs	(10)	29
Other	(3)	(6)
Balance, end of year	127	208

Investments in real estate include an asset value allowance of nil (\$19 million in 2004), which provides for deterioration of market values associated with real estate held for investment.

Also included in mortgages and other loans are modified/restructured loans of \$37 million (\$85 million in 2004) that are performing in accordance with their current terms.

Included in investments are the following:

IMPAIRED LOANS

	2005	2004
Bonds	137	150
Mortgages and other loans	17	20
Foreclosed real estate	11	2
	165	172

Impaired loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine impaired status. Loans are classified as non-accrual when:

- [1] payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or
- [2] the Corporation no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or

[3] modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. INVESTMENTS [CONTINUED]

DEFERRED NET REALIZED AND UNREALIZED GAINS

Net investment income includes amortization of deferred net realized and unrealized gains, as follows:

	2005	2004
Bonds	253	269
Mortgage and other loans	53	51
Shares	232	139
Real estate	46	38
	584	497

The balance of deferred net realized gains (included in Other liabilities) is composed of the following:

	2005	2004
Bonds	1,834	1,503
Mortgage and other loans	151	144
Shares	440	350
Real estate	173	167
	2,598	2,164

NOTE 5. SECURITIZATIONS

IGM securitized the following loans with gains, net of transactions cost, being recognized in Net investment income:

		2005		2004
	PRINCIPAL AMOUNT SECURITIZED	NET GAIN	PRINCIPAL AMOUNT SECURITIZED	NET GAIN
Commercial paper conduit transactions	252	4	191	2
Mortgage-backed security transactions	—	—	17	—

IGM's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related commercial paper conduits

(CP conduits) and mortgage-backed securities (MBS) holders (the purchasers). The purchasers do not have recourse to IGM's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for transactions completed during 2005 and 2004 were as follows:

	2005	2004
	CP CONDUIT TRANSACTIONS	CP CONDUIT TRANSACTIONS MBS TRANSACTIONS
Weighted-average		
Remaining service life [in years]	3.7	3.1 5.0
Interest rate	4.98%	4.97% 5.04%
Coupon rate of securities issued	4.00%	4.07% 3.99%
Prepayment rate	15.00%	15.00% 18.90%
Discount rate	4.55%	4.51% 4.35%
Servicing fees	0.25%	0.25% 0.23%
Expected credit losses	0.05%	0.05% n/a

At December 31, 2005, the fair value of the total retained interests was \$16 million (\$20 million in 2004). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was considered to be immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. SECURITIZATIONS [CONTINUED]

The total loans reported by IGM, the securitized loans serviced by IGM, as well as cash flows related to securitization arrangements are as follows:

	2005	2004
Mortgages	826	869
Personal loans	246	221
	1,072	1,090
Less: securitized loans serviced	559	593
Total on-balance sheet loans	513	497
Proceeds from new securitizations	251	207
Cash flows received on retained interests	11	14

NOTE 6. INVESTMENT IN AFFILIATE, AT EQUITY

	2005	2004
	PARJOINTCO N.V. ^[1]	
Carrying value, beginning of year	1,647	1,550
Share of operating earnings	121	126
Share of Pargesa's non-operating earnings	11	29
Foreign currency translation adjustments	(231)	(8)
Dividends	(47)	(45)
Other, net	—	(5)
Carrying value, end of year	1,501	1,647
Share of equity, end of year	1,490	1,633

[1] At December 31, 2005, Parjointco N.V., 50% held by the Corporation, held a voting interest of 61.4% [2004 — 61.4%] and an equity interest of 54.1% [2004 — 54.3%] in Pargesa Holding S.A.

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

A summary of changes in the Corporation's goodwill and intangible assets is as follows:

2005	GOODWILL	INTANGIBLE ASSETS	TOTAL
Balance, beginning of year	8,185	2,408	10,593
Amortization of finite life intangible assets	—	(19)	(19)
Changes in foreign exchange rates	(1)	(37)	(38)
Acquisition of Investment Planning Counsel [Note 2]	1	—	1
Other, including effect of repurchase of common shares by subsidiaries	18	1	19
Balance, end of year	8,203	2,353	10,556

2004	GOODWILL	INTANGIBLE ASSETS	TOTAL
Balance, beginning of year	7,952	2,258	10,210
Change in allocation of the purchase price of CLFC	66	127	193
Acquisition of Investment Planning Counsel [Note 2]	102	41	143
Amortization of finite life intangible assets	—	(19)	(19)
Other, including effect of repurchase of common shares by subsidiaries	65	1	66
Balance, end of year	8,185	2,408	10,593

Intangible assets represent the fair value of mutual fund management contracts, distribution contracts, trade names, brands and trademarks, and the shareholders' portion of acquired future participating account profits. The intangible assets include, for the most part, indefinite

life intangible assets of \$1,979 million (\$1,999 million in 2004) that are not subject to amortization, as well as finite life intangible assets of \$374 million (\$409 million in 2004) amortized over a period not to exceed 30 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. INCOME TAXES

The following table reconciles the statutory and effective tax rates:

	2005	2004
	%	%
Combined basic Canadian federal and provincial tax rates	35.5	35.6
Non-taxable investment income	(4.2)	(5.0)
Earnings of affiliated company	(1.2)	(1.4)
Lower effective tax rates on income not subject to tax in Canada	(3.5)	(3.0)
Miscellaneous, net of Large Corporation Tax	(0.6)	(0.1)
	26.0	26.1

	2005	2004
Components of income tax expense are		
Current income taxes	742	619
Future income taxes	152	213
	894	832
Future income taxes consist of the following temporary differences		
Policy liabilities	58	243
Loss carry forwards	388	439
Investments	(284)	(351)
Deferred selling commissions	(334)	(306)
Intangible assets	(267)	(268)
Other	69	(22)
Future income taxes	(370)	(265)
Presented as		
Future income tax assets	460	553
Future income tax liabilities	(830)	(818)
	(370)	(265)

As at December 31, 2005, the Corporation and its subsidiaries have non-capital losses of \$276 million (\$266 million in 2004) available to reduce future taxable income for which the benefit has not been recognized. If not utilized, these losses will expire at various dates

to 2015. In addition, the Corporation has capital loss carry forwards that can be used indefinitely to offset future capital gains of approximately \$61 million (\$61 million in 2004).

NOTE 9. OTHER ASSETS

	2005	2004
Dividends, interest and other receivables	1,770	1,609
Premiums in course of collection	623	480
Deferred selling commissions	928	851
Fixed assets, net of accumulated amortization	348	357
Accrued benefit asset [Note 19]	222	193
Other	454	493
	4,345	3,983

NOTE 10. ACTUARIAL LIABILITIES AND RISK MANAGEMENT

Actuarial liabilities of Lifeco represent the amounts equal to the carrying value of the assets that, taking into account the other pertinent items on the balance sheet, will be sufficient to discharge Lifeco's obligations over the term of the liability for its insurance policies and to pay expenses related to the administration of those policies. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, actuarial liabilities have been determined in accordance with the Canadian Asset Liability Method.

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that the actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

MORTALITY › A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update Lifeco's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

MORBIDITY › Lifeco uses industry-developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

PROPERTY AND CASUALTY REINSURANCE › Actuarial liabilities for property and casualty reinsurance written by London Reinsurance Group (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques, including discounting. The reserves are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to

reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, reserves also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyses the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in-depth analysis is undertaken of the cedant experience.

INVESTMENT RETURNS › The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

EXPENSES › Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption with the investment return is incorporated in the estimate of future expenses.

POLICY TERMINATION › Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Lifeco has no experience with specific types of policies or its exposure is limited.

POLICYHOLDER DIVIDENDS › Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies.

INTEREST RATE RISK

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

CREDIT RISK

Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on assets. The net effective yield rate reduction averaged 0.18% (0.17% in 2004).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. ACTUARIAL LIABILITIES AND RISK MANAGEMENT [CONTINUED]

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2005	2004
Participating policyholders	570	492
Non-participating policyholders	608	467
	1,178	959

REINSURANCE RISK

Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance, and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve Lifeco from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Lifeco. Lifeco evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts, which include the reinsurance transaction described in Note 17:

	2005	2004
Participating policyholders	109	142
Non-participating policyholders	6,537	6,896
	6,646	7,038

Certain of the reinsurance contracts are on a funds withheld basis where Lifeco retains the assets supporting the reinsured actuarial liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

FOREIGN EXCHANGE RISK

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose Lifeco to the risk of foreign exchange losses not offset by liability decreases. Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow Lifeco to modify an asset position to more closely match actual or committed liability currency.

LIQUIDITY RISK

Liquidity risk is the risk that Lifeco will have difficulty in raising funds to meet commitments. The liquidity needs of Lifeco are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 60% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.

SENSITIVITY OF ACTUARIAL ASSUMPTIONS

The actuarial assumption most susceptible to change in the short term is future investment returns. One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of Lifeco of an immediate 1% increase or an immediate 1% decrease in the level of interest rates. These interest rate changes will also impact the projected cash flows. When the change to the projected cash flows is included in the calculation, the effect of an immediate 1% increase in interest rates would be to decrease the present value of these projected cash flows by \$199 million and the effect of an immediate 1% decrease in interest rates would be to decrease the present value of these projected cash flows by \$453 million. The level of actuarial liabilities established under the Canadian Asset Liability Method of valuation provides for interest rate movements significantly greater than the 1% shifts shown above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. DEBENTURES AND OTHER BORROWINGS

	2005	2004
Power Financial Corporation		
7.65% debentures, due January 5, 2006 ^[1]	150	150
6.90% debentures, due March 11, 2033	250	250
IGM Financial Inc.		
6.75% debentures 2001 Series, due May 9, 2011	450	450
6.58% debentures 2003 Series, due March 7, 2018	150	150
6.65% debentures 1997 Series, due December 13, 2027	125	125
7.45% debentures 2001 Series, due May 9, 2031	150	150
7.00% debentures 2002 Series, due December 31, 2032	175	175
7.11% debentures 2003 Series, due March 7, 2033	150	150
Great-West Lifeco Inc.		
Five-year term facility at interest rates of: nil [\$118 million in 2004] at Canadian 90-day Bankers' Acceptance rate; nil [\$31 million in 2004] 90-day LIBOR rate	–	149
Subordinated debentures due September 19, 2011, bearing a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	256	275
Subordinated debentures due December 11, 2013, bearing a fixed rate of 5.80% until 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	206	209
6.75% debentures due August 10, 2015, unsecured	200	200
6.14% debentures due March 21, 2018, unsecured	200	200
6.40% debentures due December 11, 2028, unsecured	101	101
6.74% debentures due November 24, 2031, unsecured	200	200
6.67% debentures due March 21, 2033, unsecured	400	400
6.625% deferrable debentures due November 15, 2034, unsecured [US\$175 million]	205	210
Other notes payable with interest of 8.0%	9	10
	3,377	3,554
[1] These debentures were effectively converted into a Swiss franc-denominated debt [SF127,518,490] bearing interest at 4.43% payable semi-annually through a ten-year cross-currency swap. This swap was terminated in October 2005.		

FINANCING CHARGES

The maximum aggregate amount of principal payments on debentures and other borrowings in each of the next five years is as follows: \$151 million in 2006; \$1 million in 2007; \$1 million in 2008; \$1 million in 2009 and \$1 million in 2010.

Financing charges include interest on debentures and other borrowings, together with distributions and interest on capital trust securities and debentures and dividends on preferred shares now classified as liabilities, as described in Notes 1 and 12.

	2005	2004
Interest on debentures and other borrowings	218	243
Preferred share dividends	75	80
Distributions and interest on capital trust securities and debentures	49	49
Distributions on capital trust securities held by the consolidated group as temporary investments	(12)	(18)
	330	354

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. CAPITAL TRUST SECURITIES AND DEBENTURES

	2005	2004
Capital trust securities		
Trust securities issued by GWLCT	–	350
Trust securities issued by CLCT	–	450
	–	800
Capital trust debentures		
5.995% senior debentures due December 31, 2052, unsecured [GWLCT]	350	–
6.679% senior debentures due June 30, 2052, unsecured [CLCT]	300	–
7.529% senior debentures due June 30, 2052, unsecured [CLCT]	150	–
	800	–
Acquisition-related fair market value adjustment	34	37
Trust securities held by the consolidated group as temporary investments	(186)	(186)
	648	651

GWLCT, a trust established by Great-West, had issued \$350 million of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West senior debentures in the amount of \$350 million, and CLCT, a trust established by Canada Life, had issued \$450 million of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of \$450 million. Effective January 1, 2005, the Corporation does not

consolidate GWLCT and CLCT (see Note 1). The impact of this change is to not recognize the capital trust securities issued by GWLCT and CLCT and to recognize the debentures issued to the trusts by Great-West and Canada Life. As a result, distributions and interest on the capital trust securities have been reclassified to Financing charges on the Consolidated Statements of Earnings (see Note 11).

NOTE 13. OTHER LIABILITIES

	2005	2004
Accounts payable, accrued liabilities and other	3,650	4,079
Deferred net realized gains [Note 4]	2,598	2,164
Income taxes payable	492	445
Repurchase agreements	936	676
Accrued benefit liability [Note 19]	607	545
Commercial paper and other loans	126	134
Dividends and interest payable	226	207
	8,635	8,250

NOTE 14. NON-CONTROLLING INTERESTS

	2005	2004
Non-controlling interests include		
Participating policyholders	1,741	1,654
Preferred shareholders of subsidiaries	956	658
Common shareholders of subsidiaries	3,587	3,330
	6,284	5,642
Earnings attributable to non-controlling interests include		
Earnings attributable to participating policyholders	94	117
Dividends to preferred shareholders of subsidiaries	52	35
Earnings attributable to common shareholders of subsidiaries	744	666
	890	818

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. STATED CAPITAL

AUTHORIZED

Unlimited number of first preferred shares, issuable in series, of second preferred shares, issuable in series and of common shares.

ISSUED AND OUTSTANDING				
		2005		2004
	NUMBER OF SHARES	STATED CAPITAL	NUMBER OF SHARES	STATED CAPITAL
Preferred shares [classified as liabilities]				
Series C First Preferred Shares ^[i]	6,000,000	150	6,000,000	150
Series J First Preferred Shares ^[ii]	6,000,000	150	6,000,000	150
		300		300
Preferred shares [perpetual]				
Series A First Preferred Shares ^[iii]	4,000,000	100	4,000,000	100
Series D First Preferred Shares ^[iv]	6,000,000	150	6,000,000	150
Series E First Preferred Shares ^[v]	8,000,000	200	8,000,000	200
Series F First Preferred Shares ^[vi]	6,000,000	150	6,000,000	150
Series H First Preferred Shares ^[vii]	6,000,000	150	6,000,000	150
Series I First Preferred Shares ^[viii]	8,000,000	200	8,000,000	200
Series K First Preferred Shares ^[ix]	10,000,000	250	–	–
		1,200		950
Common Shares^[x]	704,813,680	593	704,813,680	593

[i] The 5.20% Non-Cumulative First Preferred Shares, Series C are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.30 per share per annum. On and after October 31, 2007, the Corporation may redeem for cash the Series C First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed within the twelve months commencing October 31, 2007, declining by \$0.20 per share for each subsequent twelve-month period thereafter to October 31, 2011, \$25.20 if redeemed on or after October 31, 2011 and before July 31, 2012, and \$25.00 if redeemed on or after July 31, 2012, in each case together with all declared and unpaid dividends to the date of redemption.

On or after July 31, 2012, the Corporation may convert each Series C First Preferred Share into that number of common shares determined by dividing \$25.00 together with all declared and unpaid dividends to the date of conversion by the greater of \$3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

On or after October 31, 2012, subject to the right of the Corporation to offer the right to convert into a further series of preferred shares, to redeem for cash or to find substitute purchasers for such shares, each Series C First Preferred Share will be convertible at the option of the holder, on the last day of January, April, July and October of each year, into that number

of common shares determined by dividing \$25.00 together with all declared and unpaid dividends to the date of conversion by the greater of \$3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

[ii] The 4.70% Non-Cumulative First Preferred Shares, Series J are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.175 per share per annum. On and after April 30, 2008, the Corporation may redeem for cash the Series J First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to April 30, 2009, \$25.75 if redeemed thereafter and prior to April 30, 2010, \$25.50 if redeemed thereafter and prior to April 30, 2011, \$25.25 if redeemed thereafter and prior to April 30, 2012 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

On and after April 30, 2013, the Corporation may convert each Series J First Preferred Share into that number of common shares determined by dividing \$25.00 together with all declared and unpaid dividends to the date of conversion by the greater of \$3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. STATED CAPITAL [CONTINUED]

On and after July 31, 2013, subject to the right of the Corporation to offer the right to convert into a further series of preferred shares, to redeem for cash or to find substitute purchasers for such shares, each Series J First Preferred Share will be convertible at the option of the holder, on the last day of January, April, July and October of each year, into that number of common shares determined by dividing \$25.00 together with all declared and unpaid dividends to the date of conversion by the greater of \$3.00 and 95% of the weighted average trading price of the common shares for the 20 trading days ending on the last trading day occurring on or before the fourth day immediately prior to the date of conversion.

- [iii] The Series A First Preferred Shares are entitled to an annual cumulative dividend at a floating rate equal to 70% of the prime rate of two major Canadian chartered banks and are redeemable at the Corporation's option at \$25.00 per share.
- [iv] The 5.50% Non-Cumulative First Preferred Shares, Series D are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.375 per share per annum. On and after January 31, 2013, the Corporation may redeem for cash the Series D First Preferred Shares in whole or in part, at the Corporation's option, at \$25.00 per share together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [v] The 5.25% Non-Cumulative First Preferred Shares, Series E are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.3125 per share per annum. On and after November 30, 2006, the Corporation may redeem for cash the Series E First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to November 30, 2007, \$25.75 if redeemed thereafter and prior to November 30, 2008, \$25.50 if redeemed thereafter and prior to November 30, 2009, \$25.25 if redeemed thereafter and prior to November 30, 2010 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [vi] The 5.90% Non-Cumulative First Preferred Shares, Series F are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.475 per share per annum. On and after July 17, 2007, the Corporation may redeem for cash the Series F First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to July 17, 2008, \$25.75 if redeemed thereafter and prior to July 17, 2009, \$25.50 if redeemed thereafter and prior to July 17, 2010, \$25.25 if redeemed

thereafter and prior to July 17, 2011 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.

- [vii] The 5.75% Non-Cumulative First Preferred Shares, Series H are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.4375 per share per annum. On and after December 10, 2007, the Corporation may redeem for cash the Series H First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to December 10, 2008, \$25.75 if redeemed thereafter and prior to December 10, 2009, \$25.50 if redeemed thereafter and prior to December 10, 2010, \$25.25 if redeemed thereafter and prior to December 10, 2011 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [viii] The 6.00% Non-Cumulative First Preferred Shares, Series I are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.50 per share per annum. On and after April 30, 2008, the Corporation may redeem for cash the Series I First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to April 30, 2009, \$25.75 if redeemed thereafter and prior to April 30, 2010, \$25.50 if redeemed thereafter and prior to April 30, 2011, \$25.25 if redeemed thereafter and prior to April 30, 2012 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [ix] In 2005, the Corporation issued 10,000,000 4.95% Non-Cumulative First Preferred Shares, Series K for cash proceeds of \$250 million. The 4.95% Non-Cumulative First Preferred Shares, Series K are entitled to fixed non-cumulative preferential cash dividends at a rate equal to \$1.2375 per share per annum. On and after October 31, 2010, the Corporation may redeem for cash the Series K First Preferred Shares in whole or in part, at the Corporation's option, at \$26.00 per share if redeemed prior to October 31, 2011, \$25.75 if redeemed thereafter and prior to October 31, 2012, \$25.50 if redeemed thereafter and prior to October 31, 2013, \$25.25 if redeemed thereafter and prior to October 31, 2014 and \$25.00 if redeemed thereafter, in each case together with all declared and unpaid dividends to, but excluding, the date of redemption.
- [x] In 2004, 7,980,000 common shares were issued under the Corporation's Employee Stock Option Plan for a consideration of \$37 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. STOCK-BASED COMPENSATION

- [i] On October 1, 2000, the Corporation established a deferred share unit plan for the Directors of the Corporation to promote a greater alignment of interests between Directors and shareholders of the Corporation. Under this plan, each Director may elect to receive his or her annual retainer and attendance fees entirely in the form of deferred share units, entirely in cash, or equally in cash and deferred share units. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the five-day-average closing price on the Toronto Stock Exchange of the Common Shares of the Corporation on the last five days of the fiscal quarter (the value of a deferred share unit). A Director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on Common Shares, based on the value of a deferred share unit at that time. A deferred share unit shall be redeemable at the time a Director's membership on the Board is terminated or in the event of the death of a Director by a lump sum cash payment, based on the value of a deferred share unit at that time. At December 31, 2005, the value of the deferred share units outstanding was \$3.7 million (\$2.7 million in 2004).

In addition, Directors may also participate in the Director Share Purchase Plan.

- [ii] Effective May 1, 2000, an Employee Share Purchase Program (ESPP) was implemented giving employees the opportunity to subscribe for up to 6% of their gross salary to purchase Subordinate Voting Shares of Power Corporation of Canada on the open market and to have the Corporation invest, on the employee's behalf, up to an equal amount. The amount paid on behalf of employees was \$0.1 million in 2005 (\$0.1 million in 2004).

- [iii] Since 2004, compensation expense is recorded for options granted under the Corporation's and its subsidiaries' stock option plans, based on the fair value of the options at the grant date, amortized over the vesting period.

During the year ended December 31, 2005, 2,015,000 options (50,000 options in 2004) were granted under the Corporation's stock option plan. The fair value of these options was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004
Dividend yield	2.4%	2.4%
Expected volatility	21.0%	21.0%
Risk-free interest rate	4.3%	5.0%
Expected life [years]	9	9
Fair value per stock option [\$ / option]	\$8.10	\$6.63

In addition, stock options were granted by subsidiaries. For the year ended December 31, 2005, compensation expense relating to the stock options granted by the Corporation and its subsidiaries amounted to \$20 million (\$17 million in 2004).

- [iv] Under the Corporation's Employee Stock Option Plan, 20,781,600 additional shares are reserved for issuance. The plan requires that the exercise price under the option must not be less than the market value of a share on the date of the grant of the option. Options have a term of ten years and may be exercised as follows: 50% one year after the grant date, 75% two

years after the grant date and 100% three years after the grant date, except for a grant of 2,000,000 options in 1997 which became fully vested at the date of the grant, a grant of 3,000,000 options in 2000 which vest equally over a period of five years beginning on December 31, 2000, a grant of 3,000,000 options in 2004 which vest as follows: 1,000,000 at December 31, 2005, 1,000,000 at December 31, 2006 and 1,000,000 at December 31, 2007, and a grant of 2,015,000 options in 2005 which vest equally over a period of five years beginning on May 12, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. STOCK-BASED COMPENSATION [CONTINUED]

A summary of the status of the Corporation's stock option plan as at December 31, 2005 and 2004, and changes during the years ended on those dates is as follows:

	2005		2004	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
		\$		\$
Outstanding at beginning of year	6,410,000	17.41	14,340,000	10.26
Granted	2,015,000	32.24	50,000	26.97
Exercised	—	—	(7,980,000)	4.61
Outstanding at end of year	8,425,000	20.96	6,410,000	17.41
Options exercisable at end of year	4,385,000	15.42	3,360,000	13.48

The following table summarizes information about stock options outstanding at December 31, 2005:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED-AVERAGE REMAINING LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
		[yrs]	\$		\$
6.66	80,000	1.2	6.66	80,000	6.66
11.35 – 16.87	3,280,000	4.6	13.65	3,280,000	13.65
21.65 – 26.97	3,050,000	7.6	21.74	1,025,000	21.78
32.24	2,015,000	9.4	32.24	—	—
	8,425,000	6.8	20.96	4,385,000	15.42

NOTE 17. REINSURANCE TRANSACTION

During the first quarter of 2004, Lifeco's indirect subsidiary, Canada Life, ceded 100% of its U.S. group insurance business to a third party on an indemnity reinsurance basis. The ceded premiums of \$416 million associated with the transaction have been recorded in the Consolidated Statement of Earnings as a reduction in Premium income with

a corresponding reduction to the change in Actuarial liabilities. For the Consolidated Balance Sheets, this transaction resulted in a reduction of cash and Other assets of \$416 million, a reduction of Policyholder liabilities of \$384 million and a reduction of Other liabilities of \$32 million.

NOTE 18. OTHER INCOME [CHARGES], NET

	2005	2004
Share of Pargesa's non-operating earnings [Note 6]	11	29
Restructuring costs [Note 3]	(22)	(44)
IGM unitholder compensation charge	—	(29)
Gain resulting from the dilution of the Corporation's interest in a subsidiary	—	9
	(11)	(35)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Corporation and its subsidiaries maintain funded defined benefit pension plans for certain of its employees and agents as well as unfunded supplementary employee retirement plans (SERP) for

certain executives. The Corporation also provides post-retirement health and life insurance benefits to eligible retirees, agents and their dependants.

	2005		2004	
	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS
Fair value of plan assets				
Balance, beginning of year	2,866		2,791	
Employee contributions	13		14	
Employer contributions	34		21	
Benefits paid	(131)		(122)	
Actual return on plan assets	374		192	
Settlement	(18)		-	
Other, including foreign exchange	(40)		(30)	
Balance, end of year	3,098		2,866	
Accrued benefit obligation				
Balance, beginning of year	2,905	517	2,688	563
Benefits paid	(131)	(17)	(122)	(16)
Current service cost	77	17	79	19
Employee contributions	13	-	14	-
Interest cost	173	31	166	31
Actuarial [gains] losses	260	73	123	(43)
Settlement and curtailment	(14)	(81)	(11)	-
Past service cost	6	(103)	17	-
Other, including foreign exchange	(59)	-	(49)	(37)
Balance, end of year	3,230	437	2,905	517
Funded status				
Fund surplus [deficit] ⁽ⁱ⁾	(132)	(437)	(39)	(517)
Unamortized past service costs	25	(120)	25	(22)
Valuation allowance	(57)	-	(68)	-
Unamortized net actuarial losses	249	87	175	94
Accrued benefit asset [liability] ⁽ⁱⁱ⁾	85	(470)	93	(445)
Charge was determined as follows				
Current service cost	77	17	79	19
Interest cost	173	31	166	31
Actual return on plan assets	(374)	-	(192)	-
Past service cost	6	(103)	17	-
Settlement and curtailment	5	(6)	(11)	(4)
Actuarial [gains] losses on accrued benefit obligation	260	73	123	(43)
	147	12	182	3
Difference between actual and expected return on assets	180	-	(1)	-
Difference between actuarial gains [losses] arising during the period and actuarial gains [losses] amortized	(254)	(68)	(113)	46
Difference between past service costs arising in period and past service costs amortized	-	100	(16)	(2)
Amortization of transitional obligation	1	-	1	-
Other	-	-	3	-
Net charge	74	44	56	47

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS [CONTINUED]

- [i] The aggregate accrued benefit obligations and aggregate fair value of plan assets of individual pension plans that had accrued benefit obligations in excess of the fair value of their related plan assets at December 31, 2005 amounted to \$2,088 million (\$1,570 million in 2004) and \$1,828 million (\$1,370 million in 2004), respectively. In addition, the Corporation and its subsidiaries maintain unfunded supplementary Executive Retirement Plans. The obligation for these plans, which is included above, was \$269 million at December 31, 2005 (\$220 million in 2004).

- [ii] The net accrued benefit asset (liability) shown above is presented in these financial statements as follows:

	2005			2004		
	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS	TOTAL	PENSION PLANS	OTHER POST-RETIREMENT BENEFITS	TOTAL
Accrued benefit asset [Note 9]	222		222	193		193
Accrued benefit liability [Note 13]	(137)	(470)	(607)	(100)	(445)	(545)
Accrued benefit asset [liability]	85	(470)	(385)	93	(445)	(352)

CURTAILMENT

In 2005, the terms of most of the post-retirement health, dental and life insurance plans at Lifeco were amended. The amendment reduced the level of post-retirement benefits to be provided to certain active employees and revised the eligibility requirements for receiving benefits for certain other active employees. This results in the establishment of a negative past service cost that is being amortized over the average remaining service lives of these certain active employees. A curtailment has been recognized to reflect the impact of the changes in the plan's eligibility requirements.

OTHER

Subsidiaries of Lifeco have declared a partial windup in respect of certain Ontario defined benefit pension plans. These partial windups will not likely be completed for some time and, as a result of the July 2004

Supreme Court of Canada decision in *Monsanto Canada Inc. v. Ontario (Superintendent of Financial Services)*, could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound-up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement and the method by which any surplus distribution would be implemented.

Based on information presently known, it is not expected that any application of the Monsanto decision to these partial windups will have a material adverse effect on the consolidated financial position of the Corporation.

MEASUREMENT AND VALUATION

The dates of actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

MOST RECENT VALUATION	% OF PLANS	NEXT REQUIRED VALUATION	% OF PLANS
December 31, 2002	18	December 31, 2005	35
December 31, 2003	13	December 31, 2006	13
April 1, 2004	4	April 1, 2007	4
December 31, 2004	65	December 31, 2007	48

CASH PAYMENTS

	ALL PENSION PLANS		OTHER POST-RETIREMENT BENEFITS	
	2005	2004	2005	2004
Benefit payments	15	12	17	16
Company contributions	45	28	—	—
	60	40	17	16

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS [CONTINUED]

ASSET ALLOCATION BY MAJOR CATEGORY WEIGHTED BY PLAN ASSETS

	DEFINED BENEFIT PENSION PLANS	
	2005	2004
	%	%
Equity securities	52	51
Debt securities	38	39
All other assets	10	10
	100	100

No plan assets are directly invested in the Corporation's or subsidiaries' securities. Nominal amounts may be invested in the Corporation's or subsidiaries' securities through investments in pooled funds.

SIGNIFICANT ASSUMPTIONS

	DEFINED BENEFIT PENSION PLANS		OTHER POST-RETIREMENT BENEFITS	
	2005	2004	2005	2004
	%	%	%	%
Weighted average assumptions used to determine benefit cost				
Discount rate	6.0	6.2	6.2	6.3
Expected long-term rate of return on plan assets	6.8	7.0		
Rate of compensation increase	4.9	4.8		
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	5.3	6.0	5.3	6.2
Rate of compensation increase	4.2	4.9		

WEIGHTED AVERAGE HEALTH CARE TREND RATES

In determining the expected cost of health care benefits, health care costs were assumed to increase by 7.4% in 2005 and gradually decrease to a level of 4.7% for 2010 and thereafter. For 2005, the impact on the accrued post-retirement benefit obligation of a 1% increase (decrease)

in assumed health care rates is a \$51 million increase and a \$43 million decrease, respectively. The impact on the post-retirement benefit expense of a 1% increase (decrease) in assumed health care rates is a \$9 million increase and a \$7 million decrease, respectively.

NOTE 20. EARNINGS PER SHARE

The following is a reconciliation of the numerators and the denominators of the basic and diluted earnings per common share computations:

FOR THE YEARS ENDED DECEMBER 31	2005	2004
Net earnings	1,661	1,543
Dividends on perpetual preferred shares	(55)	(51)
Net earnings available to common shareholders	1,606	1,492
Weighted number of common shares outstanding [millions]		
— Basic	704.8	703.9
Exercise of stock options	8.4	6.4
Shares assumed to be repurchased with proceeds from exercise of stock options	(5.4)	(4.0)
Weighted number of common shares outstanding [millions]		
— Diluted	707.8	706.3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Corporation's financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists. Fair values are management's

estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

	2005		2004	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Assets				
Cash and cash equivalents	4,642	4,642	3,623	3,623
Investments [excluding real estate]	84,992	88,870	79,794	82,919
Other financial assets	4,949	4,949	4,426	4,426
Total financial assets	94,583	98,461	87,843	90,968
Liabilities				
Policy liabilities	75,050	80,320	70,095	73,568
Deposits and certificates	693	694	711	717
Debentures and other borrowings	3,377	3,888	3,554	3,858
Other financial liabilities	9,755	9,755	9,649	9,649
Total financial liabilities	88,875	94,657	84,009	87,792

Fair value is determined using the following methods and assumptions:

- › The fair value of temporary financial instruments is assumed to be equal to book value due to their short-term maturities. These include cash and cash equivalents, dividends and interest receivable, premiums in the course of collection and amounts included in Other financial liabilities.
- › Shares and bonds are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used. Mortgage loans are determined by discounting the expected future cash flows at market interest rates for loans with similar credit risk.
- › The fair value of policy liabilities is based on the fair value of the assets of Lifeco supporting them.
- › Deposits and certificates are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- › Debentures and other borrowings are determined by reference to current market prices for debt with similar terms and risks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries, in the normal course of managing exposure to fluctuations in interest rates, foreign exchange rates and

market risks, is party to various derivative financial instruments whose notional amount is not recorded on the Consolidated Balance Sheets.

The following table summarizes the portfolio of off-balance sheet financial instruments at December 31:

	NOTIONAL AMOUNT				MAXIMUM CREDIT RISK	TOTAL ESTIMATED FAIR VALUE
	1 YEAR OR LESS	1-5 YEARS	OVER 5 YEARS	TOTAL		
2005						
Interest rate contracts						
Futures — long	30	—	—	30	—	—
Futures — short	308	—	—	308	—	—
Interest rate swaps	929	681	636	2,246	117	100
Options written	26	—	—	26	—	—
Options purchased	—	—	547	547	72	72
	1,293	681	1,183	3,157	189	172
Foreign exchange contracts						
Forward contracts	884	—	—	884	12	7
Cross-currency swaps	143	1,062	2,622	3,827	534	496
	1,027	1,062	2,622	4,711	546	503
Market risk management						
Options purchased	—	23	—	23	—	—
Options written	—	31	—	31	—	(29)
Forward sales	6	—	—	6	1	1
Equity contracts	321	88	—	409	8	4
	327	142	—	469	9	(24)
	2,647	1,885	3,805	8,337	744	651
2004						
Interest rate contracts						
Futures — long	152	—	—	152	—	—
Futures — short	238	—	—	238	—	—
Interest rate swaps	978	621	545	2,144	46	27
Options written	—	26	—	26	—	(86)
Options purchased	360	—	655	1,015	60	59
	1,728	647	1,200	3,575	106	—
Foreign exchange contracts						
Forward contracts	1,119	—	—	1,119	1	(14)
Cross-currency swaps	212	1,100	1,619	2,931	350	305
	1,331	1,100	1,619	4,050	351	291
Market risk management						
Options purchased	24	23	—	47	1	1
Options written	29	31	—	60	—	(17)
Forward sales	11	5	—	16	—	(2)
Equity contracts	477	88	—	565	19	18
	541	147	—	688	20	—
	3,600	1,894	2,819	8,313	477	291

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. The maximum credit risk is presented without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the

Corporation would receive (or pay) to terminate all agreements at year-end. However, this does not represent a gain or loss to the Corporation as the hedged position is matched to certain of the Corporation's assets and liabilities. All counterparties are highly rated financial institutions on a diversified basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23. CONTINGENT LIABILITIES

The Corporation's subsidiaries are subject to legal actions, including proposed class actions, arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Corporation.

In addition, there are three proposed class proceedings in Ontario regarding the participation of the London Life and Great-West participating policyholder accounts in the financing of the acquisition of LIG in 1997 by Great-West. These proceedings are in their early stages, and it is difficult to predict their outcome with certainty. However, based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Corporation.

Subsidiaries of Lifeco have declared a partial windup in respect of Ontario defined benefit pension plans, which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound-up portion of the plan. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition

to the regulatory proceedings involving one of the partial windups, a related proposed class action proceeding has been commenced in Ontario. Based on information presently known, Lifeco has not established a provision for these matters, due to the significant uncertainty with regard to the issues and likely outcome. It is not expected that any of these matters will have a material adverse effect on the consolidated financial position of the Corporation.

Investors Group and Mackenzie are subject to legal actions, including class actions, arising in the normal course of their business. Three class actions related to alleged market timing trading activity in mutual funds of IGM have been commenced. Investors Group entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the consolidated financial position of the Corporation.

NOTE 24. COMMITMENTS AND GUARANTEES

GUARANTEES

In the normal course of operations, the Corporation executes agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Corporation has also agreed to indemnify its directors and certain of its officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Corporation could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Corporation has not made any payments under such indemnification agreements.

SYNDICATED LETTERS OF CREDIT

Clients residing in the United States are required, pursuant to their insurance laws, to obtain letters of credit issued on behalf of LRG, a subsidiary of London Life, from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing US\$650 million in letters of credit capacity. The facility was arranged in 2005 for a five-year term expiring November 15, 2010. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued US\$611 million in letters of credit under the facility as at December 31, 2005. LRG and certain of its affiliates had issued US\$748 million under a previous letter of credit facility at December 31, 2004. LRG has other bilateral letter of credit facilities totalling US\$18 million (US\$36 million in 2004).

CROWN LIFE ACQUISITION AGREEMENTS

As part of the 1999 acquisition by CLFC of the majority of Crown Life Insurance Company's (Crown Life) insurance operations, CLFC has the option, or may be obligated, to acquire the common shares of Crown Life and, through assumption reinsurance, the remaining insurance business of Crown Life at any time after January 1, 2004, subject to certain conditions, in which case CLFC would receive assets with a value equal to the liabilities assumed. The purchase price for the shares would be the fair value of the assets backing Crown Life's common shareholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25. SEGMENTED INFORMATION

The following strategic business units constitute the Corporation's reportable operating segments:

- › Lifeco offers in Canada, the United States and in Europe, a wide range of life insurance, health insurance, retirement and investment products, as well as reinsurance and specialty general insurance products to individuals, businesses and other private and public organizations.
- › IGM offers a comprehensive package of financial planning services and investment products to its client base. IGM derives its revenues from a range of sources, but primarily from management fees, which are charged to its mutual funds for investment advisory and management services. IGM also earns revenue from fees charged to its mutual funds for administrative services.
- › Parjointco N.V. holds the Corporation's interest in Pargesa Holding S.A., a holding company which holds diversified interests in a

limited number of media, specialty minerals, cement and building materials, water, waste services and energy companies based in Europe.

- › The segment entitled Other is made up of corporate activities of the Corporation and also includes consolidation adjustments.

The accounting policies of the operating segments are those described in the summary of significant accounting policies. The Corporation evaluates the performance based on the operating segment's contribution to consolidated net earnings. Revenues and assets are attributed to geographic areas based on the point of origin of revenues and the location of assets. The contribution to consolidated net earnings of each segment is calculated after taking into account the investment Lifeco and IGM have in each other (adjusted, in the case of Lifeco, to reflect the equity method of accounting for its investment in IGM).

INFORMATION ON PROFIT MEASURE

DECEMBER 31, 2005	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Revenues					
Premium income	16,048			–	16,048
Net investment income	5,389	183		(45)	5,527
Fee income	2,434	2,164		(37)	4,561
	23,871	2,347		(82)	26,136
Expenses					
Insurance claims	17,435			–	17,435
Commissions	1,284	726		(37)	1,973
Operating expenses	2,454	555		54	3,063
Interest expense	187	90		53	330
	21,360	1,371		70	22,801
	2,511	976		(152)	3,335
Share of earnings of affiliate	–	–	121	–	121
Other income [charges] net	(22)	–	11	–	(11)
Earnings before income taxes and non-controlling interests	2,489	976	132	(152)	3,445
Income taxes	601	292	–	1	894
Non-controlling interests	661	302	–	(73)	890
Contribution to consolidated net earnings	1,227	382	132	(80)	1,661

INFORMATION ON ASSET MEASURE

DECEMBER 31, 2005	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Goodwill	5,751	2,452			8,203
Total assets	102,161	6,807	1,501	427	110,896
Assets under administration	75,158	94,116			169,274

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25. SEGMENTED INFORMATION [CONTINUED]

GEOGRAPHIC INFORMATION

DECEMBER 31, 2005	CANADA	UNITED STATES	EUROPE	TOTAL
Revenues	11,947	5,405	8,784	26,136
Investment in affiliate, at equity	—	—	1,501	1,501
Goodwill and intangible assets	8,765	54	1,737	10,556
Total assets	56,423	27,334	27,139	110,896
Assets under administration	132,970	17,008	19,296	169,274

INFORMATION ON PROFIT MEASURE

DECEMBER 31, 2004	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL [restated — Note 1]
Revenues					
Premium income	14,202			—	14,202
Net investment income	5,396	163		(50)	5,509
Fee income	2,273	1,956		(18)	4,211
	21,871	2,119		(68)	23,922
Expenses					
Insurance claims	15,490			—	15,490
Commissions	1,281	617		(18)	1,880
Operating expenses	2,533	515		48	3,096
Interest expense	205	96		53	354
	19,509	1,228		83	20,820
	2,362	891		(151)	3,102
Share of earnings of affiliate	—	—	126	—	126
Other income [charges] net	(44)	(29)	29	9	(35)
Earnings before income taxes and non-controlling interests	2,318	862	155	(142)	3,193
Income taxes	566	265	—	1	832
Non-controlling interests	624	265	—	(71)	818
Contribution to consolidated net earnings	1,128	332	155	(72)	1,543

INFORMATION ON ASSET MEASURE

DECEMBER 31, 2004	LIFECO	IGM	PARJOINTCO	OTHER	TOTAL
Goodwill	5,744	2,441			8,185
Total assets	95,851	6,473	1,647	208	104,179
Assets under administration	69,033	83,273			152,306

GEOGRAPHIC INFORMATION

DECEMBER 31, 2004	CANADA	UNITED STATES	EUROPE	TOTAL
Revenues	11,810	4,568	7,544	23,922
Investment in affiliate, at equity	—	—	1,647	1,647
Goodwill and intangible assets	8,760	55	1,778	10,593
Total assets	53,945	27,473	22,761	104,179
Assets under administration	117,731	16,820	17,755	152,306

AUDITORS' REPORT

TO THE SHAREHOLDERS OF POWER FINANCIAL CORPORATION

We have audited the consolidated balance sheets of Power Financial Corporation as at December 31, 2005 and 2004 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Montréal, Québec
March 24, 2006

POWER FINANCIAL CORPORATION

FIVE-YEAR FINANCIAL SUMMARY

DECEMBER 31					
[in millions of dollars, except per share amounts]	2005	2004 ⁽¹⁾	2003	2002	2001
CONSOLIDATED BALANCE SHEETS					
Cash and cash equivalents	4,642	3,623	3,646	2,437	2,120
Consolidated assets	110,896	104,179	105,436	68,319	67,069
Shareholders' equity	9,398	8,684	7,837	6,705	5,678
Consolidated assets and assets under administration	280,170	256,485	241,809	172,815	180,980
CONSOLIDATED STATEMENTS OF EARNINGS					
Revenues					
Premium income	16,048	14,202	7,069	11,187	10,477
Net investment income	5,527	5,509	4,773	3,813	3,916
Fee income	4,561	4,211	3,527	3,603	3,468
	26,136	23,922	15,369	18,603	17,861
Expenses					
Paid or credited to policyholders	17,435	15,490	8,346	12,593	12,030
Commissions	1,973	1,880	1,376	1,199	1,176
Operating expenses	3,063	3,096	2,726	2,452	2,595
Special charges	—	—	—	—	204
Financial charges	330	354	320	217	196
	22,801	20,820	12,768	16,461	16,201
	3,335	3,102	2,601	2,142	1,660
Share of earnings of affiliate	121	126	88	80	33
Other income [charges] — net	(11)	(35)	783	(85)	207
Income taxes	894	832	850	749	641
Amortization of goodwill	—	—	—	—	148
Non-controlling interests	890	818	612	408	240
Net earnings	1,661	1,543	2,010	980	871
Per share					
Operating earnings before amortization of goodwill in 2001 and non-recurring items	2.33	2.11	1.72	1.49	1.27
Net earnings — before amortization of goodwill in 2001	2.28	2.12	2.81	1.36	1.38
Net earnings	2.28	2.12	2.81	1.36	1.22
Dividends	0.8700	0.7300	0.6025	0.5200	0.4400
Book value at year-end	11.63	10.97	9.88	8.37	7.33
Market price					
High	35.50	32.16	25.44	22.25	19.35
Low	29.76	24.33	18.15	15.53	14.55
Year-end	33.40	31.99	24.77	18.15	19.05

[1] Restated for 2004 and prior years — see Note 4.

QUARTERLY FINANCIAL INFORMATION

[in millions of dollars, except per share amounts]	TOTAL REVENUES	NET EARNINGS	EARNINGS PER SHARE — BASIC	EARNINGS PER SHARE — DILUTED
2005				
First quarter	6,987	379	0.52	0.52
Second quarter	6,295	451	0.62	0.62
Third quarter	5,748	390	0.54	0.53
Fourth quarter	7,106	441	0.60	0.60
2004				
First quarter	5,799	335	0.46	0.46
Second quarter	6,398	431	0.59	0.59
Third quarter	5,456	377	0.52	0.52
Fourth quarter	6,269	400	0.55	0.55

BOARD OF DIRECTORS



ANDRÉ DESMARAIS, O.C.^{[1][5]}

DEPUTY CHAIRMAN OF THE CORPORATION
AND PRESIDENT
AND CO-CHIEF EXECUTIVE OFFICER,
POWER CORPORATION OF CANADA

THE HONOURABLE

PAUL DESMARAIS, P.C., C.C.^[1]

CHAIRMAN OF THE EXECUTIVE COMMITTEE,
POWER CORPORATION OF CANADA

PAUL DESMARAIS, JR., O.C.^{[1][5]}

CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICER,
POWER CORPORATION OF CANADA
AND CHAIRMAN OF THE EXECUTIVE COMMITTEE
OF THE CORPORATION

GÉRALD FRÈRE^{[3][4]}

MANAGING DIRECTOR, FRÈRE-BOURGEOIS S.A.

ANTHONY R. GRAHAM

PRESIDENT, WITTINGTON INVESTMENTS, LIMITED

ROBERT GRATTON^[1]

CHAIRMAN OF THE CORPORATION

THE RIGHT HONOURABLE

DONALD F. MAZANKOWSKI, P.C., O.C.^{[1][2]}

COMPANY DIRECTOR

JERRY E.A. NICKERSON

CHAIRMAN OF THE BOARD
H.B. NICKERSON & SONS LIMITED

R. JEFFREY ORR

PRESIDENT AND CHIEF EXECUTIVE OFFICER
OF THE CORPORATION

MICHEL PLESSIS-BÉLAIR, FCA

EXECUTIVE VICE-PRESIDENT AND CHIEF
FINANCIAL OFFICER OF THE CORPORATION
AND VICE-CHAIRMAN
AND CHIEF FINANCIAL OFFICER,
POWER CORPORATION OF CANADA

RAYMOND ROYER, O.C., FCA^{[1][2][3][4][5]}

PRESIDENT AND
CHIEF EXECUTIVE OFFICER,
DOMTAR INC.

GUY ST-GERMAIN, C.M.^{[2][3][4][5]}

PRESIDENT,
PLACEMENTS LAUGERMA INC.

EMŐKE J.E. SZATHMÁRY, C.M., PH.D.^[2]

PRESIDENT AND VICE-CHANCELLOR,
UNIVERSITY OF MANITOBA

DIRECTORS EMERITUS

JAMES W. BURNS, O.C.

THE HONOURABLE

P. MICHAEL PITFIELD, P.C., Q.C.

OFFICERS

ROBERT GRATTON

CHAIRMAN

R. JEFFREY ORR

PRESIDENT AND CHIEF EXECUTIVE OFFICER

ANDRÉ DESMARAIS, O.C.

DEPUTY CHAIRMAN

MICHEL PLESSIS-BÉLAIR, FCA

EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

ARNAUD VIAL

SENIOR VICE-PRESIDENT,
FINANCE

EDWARD JOHNSON

SENIOR VICE-PRESIDENT, GENERAL COUNSEL
AND SECRETARY

JOCelyn LEFEBVRE, C.A.

MANAGING DIRECTOR,
POWER FINANCIAL EUROPE B.V.

DENIS LE VASSEUR, C.A.

VICE-PRESIDENT AND CONTROLLER

PIERRE-ELLIOTT LEVASSEUR

TREASURER

JEANNINE ROBITAILLE

ASSISTANT SECRETARY

[1] Member of the Executive Committee

[2] Member of the Audit Committee

[3] Member of the Compensation Committee

[4] Member of the Related Party and Conduct Review Committee

[5] Member of the Governance and Nominating Committee

CORPORATE INFORMATION



Additional copies of this annual report, as well as copies of the annual reports of Lifeco, Great-West, London Life, Canada Life Financial Corporation, Canada Life, IGM Financial and Pargesa are available from:

The Secretary, Power Financial Corporation
751 Victoria Square, Montréal, Québec, Canada H2Y 2J3

or

The Secretary, Power Financial Corporation
Suite 2600, Richardson Building, 1 Lombard Place
Winnipeg, Manitoba, Canada R3B 0X5

STOCK LISTINGS

Shares of Power Financial Corporation are listed on the Toronto Stock Exchange, under the following listings:

Common Shares: PWF

First Preferred Shares, Series A: PWF.PR.A
First Preferred Shares, Series C: PWF.PR.D
First Preferred Shares, Series D: PWF.PR.E
First Preferred Shares, Series E: PWF.PR.F
First Preferred Shares, Series F: PWF.PR.G
First Preferred Shares, Series H: PWF.PR.H
First Preferred Shares, Series I: PWF.PR.I
First Preferred Shares, Series J: PWF.PR.J
First Preferred Shares, Series K: PWF.PR.K

Shareholders with questions relating to the payment of dividends, change of address and share certificates should contact the Transfer Agent.

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.
1 800 564-6253 (toll-free in Canada and the U.S.)
or (514) 982-7555

1500 University Street, Suite 700, Montréal, Québec, Canada H3A 3S8
100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1
830-201 Portage Avenue, Winnipeg, Manitoba, Canada R3B 3K6
510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9

WEB SITE

www.powerfinancial.com

Si vous préférez recevoir ce rapport annuel en français, veuillez vous adresser au secrétaire,

Corporation Financière Power
751, square Victoria, Montréal (Québec) Canada H2Y 2J3

ou

Bureau 2600, Richardson Building, 1 Lombard Place,
Winnipeg (Manitoba) Canada R3B 0X5

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COVER AND INSIDE COVER

Lilias Torrance Newton
[1896–1980]
Self-portrait, circa 1929
Oil on canvas
61.5 × 76.6 cm
National Gallery of Canada,
Ottawa
© Frank Newton
Photograph: © National
Gallery of Canada

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Antoine Plamondon [1804–1895]
Sister Saint-Alphonse, 1841
Oil on canvas
90.6 × 72 cm
National Gallery of Canada,
Ottawa
Photograph: © National
Gallery of Canada

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Wyatt Eaton [1849–1896]
The Harvest Field, 1884
Oil on canvas
90.3 × 117.2 cm
The Montreal Museum
of Fine Arts, gift of R.B. Angus
Photograph: The Montreal
Museum of Fine Arts,
Brian Merrett

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William Brymner [1855–1925]
The Weaver, 1885
Oil on canvas
61 × 63 cm
Musée national des beaux-arts
du Québec, Québec City
Photograph: Musée national
des beaux-arts du Québec,
Patrick Altman

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Robert Harris [1849–1919]
**A Meeting of the School
Trustees, 1885**
Oil on canvas
102.2 × 126.5 cm
National Gallery of Canada,
Ottawa
Photograph: © National
Gallery of Canada

PAGE 23

Robert Harris [1849–1919]
**Indian Woman and Child,
circa 1886**
Oil on canvas
79 × 63.7 cm
National Gallery of Canada,
Ottawa
Photograph: © National
Gallery of Canada

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Ozias Leduc [1864–1955]
**My Mother in Mourning,
circa 1890**
Oil on canvas
40 × 34.5 cm
National Gallery of Canada,
Ottawa
Photograph: © National
Gallery of Canada

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Joseph-Charles Franchère
[1866–1921]
Portrait of a Young Woman, 1903
Oil on canvas
46.7 × 39.4 cm
Musée national des beaux-arts
du Québec, Québec City
Photograph: Musée national
des beaux-arts du Québec,
Patrick Altman

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Horatio Walker [1858–1938]
**Sheep Shearing—
Île d'Orléans, 1903**
Oil on canvas
83.8 × 106.7 cm
Private collection

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Joseph-Charles Franchère
[1866–1921]
**Dr. Hingston and
the Operating Room, 1905**
Oil on canvas
64.5 × 85 cm
Collection des Religieuses
Hospitalières de Saint-Joseph,
Montréal
Photograph: © Musée des
Hospitalières de l'Hôtel-Dieu
de Montréal

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Marc-Aurèle de Foy Suzor-Coté
[1869–1937]
Youth and Sunlight, 1913
Oil on canvas
148 × 124.8 cm
National Gallery of Canada,
Ottawa
Photograph: © National
Gallery of Canada

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Prudence Heward [1896–1947]
At the Theatre, 1928
Oil on canvas
101.6 × 101.6 cm
The Montreal Museum
of Fine Arts, purchase, Horsley
and Annie Townsend Bequest
© Galerie Walter Klinkhoff
Photograph: The Montreal
Museum of Fine Arts,
Brian Merrett

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Alfred Pellan [1906–1988]
Secret Conversation, circa 1945
Oil on canvas
208 × 167.5 cm
Musée national des beaux-arts
du Québec, Québec City
© Estate of Alfred Pellan/
SODRAC [2006]
Photograph: Musée national
des beaux-arts du Québec,
Jean-Guy Kérourac

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Lilias Torrance Newton
[1896–1980]
**Portrait of Ethel Southam
[Mrs. F.H. Toller], date unknown**
Oil on canvas
76.3 × 61.3 cm
National Gallery of Canada,
Ottawa, gift of Mrs. F.H. Toller,
Ottawa, 1968
© Frank Newton
Photograph: © National
Gallery of Canada

PAGE 53

Stanley Cosgrove [1911–2002]
The Blue Dress, 1949
Oil on masonite
74.5 × 59.2 cm
National Gallery of Canada,
Ottawa
© Anne Cosgrove
Photograph: © National
Gallery of Canada

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Jean-Philippe Dallaire [1916–1965]
Young Girl Reading, 1950
Oil on canvas
115 × 146 cm
Collection of Power Corporation
of Canada
© Estate of Jean-Philippe Dallaire/
SODRAC [2006]

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Jean Paul Lemieux [1904–1990]
The Ursulines, 1951
Oil on canvas
61 × 76 cm
Musée national des beaux-arts
du Québec, Québec City
Purchased at the 1951 Québec
Art Competition [1st Prize]
© Gestion A.S.L. inc.
Photograph: Musée national
des beaux-arts du Québec,
Patrick Altman

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Henri Masson, RCA LLD
[1907–1996]
The Duet, 1954
Oil on canvas
55.9 × 45.7 cm
Private Collection
© Estate of Henri Masson

PAGE 63

Alex Colville [1920–]
Family and Rainstorm, 1955
Glazed tempera on board
57.1 × 74.9 cm
National Gallery of Canada,
Ottawa
© A.C. Fine Art
Photograph: © National
Gallery of Canada

PAGE 69

Alex Colville [1920–]
Swimming Race, 1958
Oil and synthetic resin on board
64.3 × 102.2 cm
National Gallery of Canada,
Ottawa, gift of Lincoln E. Kirstein,
New York, 1962
© A.C. Fine Art
Photograph: © National
Gallery of Canada

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Philip Surrey [1910–1990]
Delmo's, Montreal, circa 1967
Oil on canvas
50.8 × 61 cm
Collection of Power Corporation
of Canada
© Nick Simpson

PAGE 75

Jean Paul Lemieux [1904–1990]
**Three Generations
of Women, 1969**
Oil on canvas
177.4 × 99.2 cm
Private collection
© Gestion A.S.L. inc.

